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REPARATION COMMISSION.

XVIIIA.

OFFICIAL DOCUMENTS.

Report of the Commissioner for the German Railways (June 1, 1926).

Report of the Commissioner of the Reichsbank (June 5, 1926).

Report of the Commissioner of Controlled Revenues (May 10, 1926).

Report of the Trustee for German Industrial Debentures (May 15, 1926).

Report of the Trustee for German Railway Bonds (June, 1926).

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REPORT OF THE COMMISSIONER OF THE REICHSBANK

June 5, 1928.

REPORT OF THE COMMISSIONER FOR THE GERMAN RAILWAYS

June 1, 1928.

REPORT OF THE COMMISSIONER OF CONTROLLED REVENUES

May 10, 1928.

REPORT OF THE TRUSTEE FOR THE GERMAN RAILWAY BONDS

June, 1928.

REPORT OF THE TRUSTEE FOR THE GERMAN INDUSTRIAL DEBENTURES

May 15, 1928.

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REPORT
OF THE COMMISSIONER
OF THE REICHSBANK

June 5, 1928

BERLIN

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Report of the Commissioner of the Reichsbank.

(September 1, 1927, to May 31, 1928).

Berlin, June 5, 1928.

The following interim Report covers the period from September 1, 1927, to May 31, 1928. For events which occurred in the period from September to the beginning of December, 1927, a general reference may be made to the last annual Report dated December 7, 1927.

I. General Council.

There has been no change in the composition of the General Council during the period covered by the present Report.

The re-election of Herr Max M. Warburg as member of the General Council was confirmed on March 14, 1928, by the shareholders of the Bank in possession of German nationality.

Annex A gives a list of the members of the General Council and of the members of the Reichsbank Directorate.

The General Council met monthly during the period under report. At its meetings it accepted and examined the monthly reports of the President and of the Commissioner.

The Commissioner regularly attended the weekly meetings of the Reichsbank Directorate with the delegates of the Central Committee.

II. Reichsbank notes.

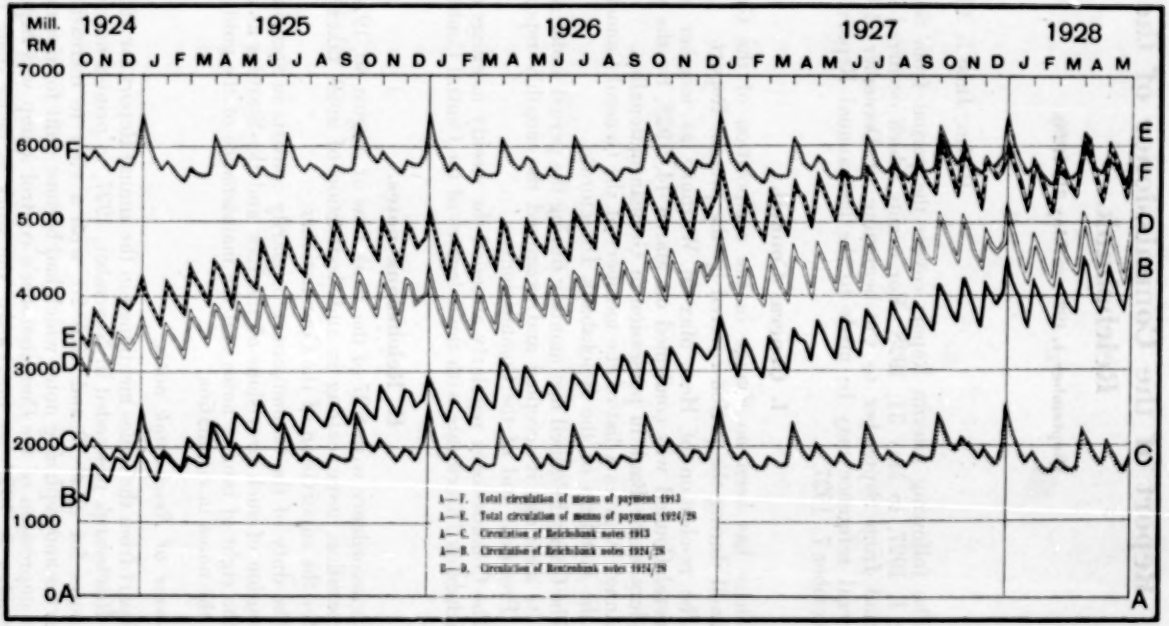
In accordance with § 27 of the Bank Law of August 30, 1924, the preparation, issue, calling in and destruction of notes takes place under the supervision of the Commissioner.

The duty of the Commissioner primarily consists in securing the execution of such provisions of the Law and the Statutes as apply to the right of issuing notes and the maintenance of the gold cover for the notes in circulation.

a. Issue of Reichsbank notes.

Apart from the issues mentioned in the annual Report for 1926/27, the Reichsbank proceeded in November, 1927, to print a new series of notes for ℛℳ 10 and ℛℳ 20, with a view to increasing its reserves and replacing notes which had become unfit for circulation. The impression of the Commissioner's control stamp was begun on December 9, 1927; as previously, the work is being done in the printing office of the Reich under the supervision of two controllers of Dutch nationality.

Diagram I
Means of payment in circulation.



The destruction of Reichsmark notes which have become unfit for circulation takes place, as required, under the supervision of the Commissioner.

It has been found in this connection that in circulation the Commissioner's stamp has continued to prove satisfactory.

The circulation of Reichsbank notes was:

on August 31, 1927	ℛ𝑀	3,934,724,000,
» October 31, 1927	»	4,230,568,000,
» December 31, 1927	»	4,564,047,000,
» February 29, 1928	»	4,268,220,000,
» April 30, 1928	»	4,409,460,000,
» May, 31, 1928	»	4,486,906,000.

Diagram I and Annex B contain detailed particulars.

b. Cover for Reichsbank notes.

Under § 28 of the Bank Law, the Reichsbank is obliged always to hold the following cover for the amount of its notes in circulation:

1. at least 40 per cent in gold or Devisen (foreign exchange), of which not less than three-quarters must be in gold (§ 28a);
2. for the remaining amount, discounted commercial bills of exchange or cheques (§ 28b).

Gold within the meaning of this provision is bar gold as well as German or foreign gold coins (the pound fine being calculated at ℛ𝑀 1,392), in so far as such gold is in the possession of the Bank or deposited with a foreign central bank of issue in a manner to be at all times at the free disposal of the Reichsbank.

Devisen are bank notes, or bills of exchange maturing in not more than 14 days, cheques and day to day claims payable in foreign currency by a bank of known solvency in foreign financial centres. They are to be taken at their current gold value.

Below is a statement of the development of this cover which is expressed in the form of a graph in diagram II; the figures appear as Annex C to the present Report. Their significance will be discussed in more detail in connection with the remarks on the policy of the Reichsbank.

Cover in gold and Devisen.

The cover in gold and Devisen shown in the returns was as follows:

On August 31, 1927	ℛ𝑀	2,009,980,000,
» October 31, 1927	»	2,012,755,000,
» December 31, 1927	»	2,146,629,000,
» February 29, 1928	»	2,170,303,000,
» April 30, 1928	»	2,208,668,000,
» May, 31, 1928	»	2,314,835,000.

Diagram II. Cover for Reichsbank notes.

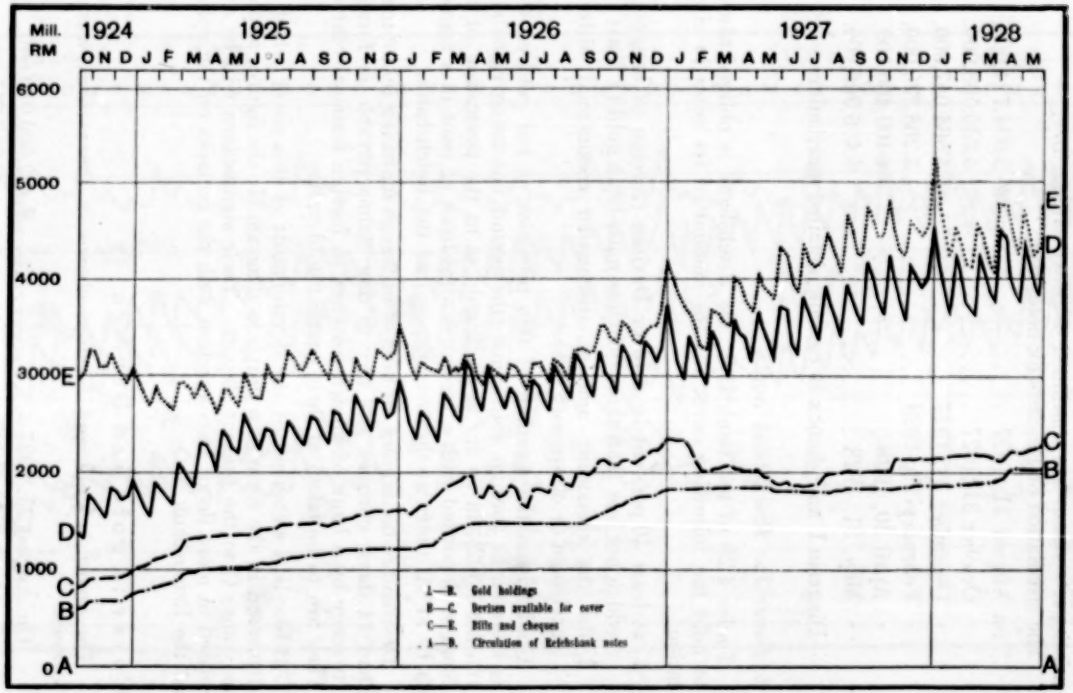
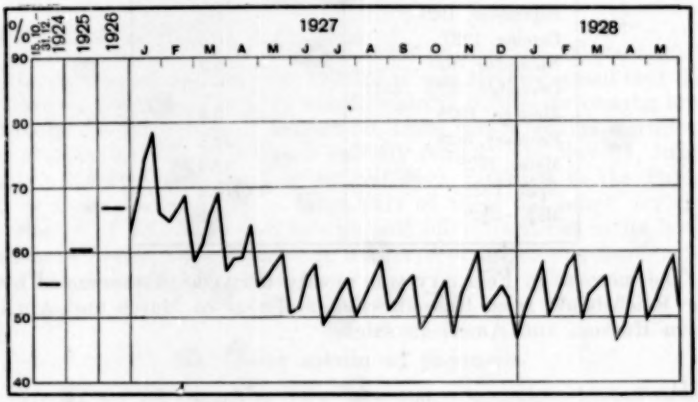


Diagram III shows the percentual development of this cover as from December 31, 1926. For the purpose of comparison the average cover for the previous years is also given. During the period under report the cover averaged 53.6 per cent of the note circulation (the maximum figure being 59.8 per cent on November 23, 1927, and the minimum 47.0 per cent on December 31, 1927, and March 31, 1928). The figures are given in Annex D.

Diagram III.

Percentual cover for Reichsbank notes in gold and Devisen available for cover.



Gold.

From the beginning of September, 1927, to the beginning of November, 1927, the gold holdings were in the neighbourhood of ℛ.𝓜 1,852 millions. Since then there has been a nearly persistent rise.

The gold holdings have been as follows:

Date	Total gold holdings ℛ.𝓜	Gold deposits with foreign Banks of Issue ℛ.𝓜
August 31, 1927	1,852,671,000	66,543,000
October 31, 1927	1,851,309,000	66,543,000
December 31, 1927	1,864,643,000	81,437,000
February 29, 1928	1,888,350,000	85,626,000
April 30, 1928	2,040,931,000	85,626,000
May 31, 1928	2,040,784,000	85,626,000

From August 31, 1927, to April 30, 1928, therefore the gold holdings increased by ℛ.𝓜 188.3 millions in all. During this period

gold to the total amount of ℛ.ℳ 212.2 millions was imported into Germany, while ℛ.ℳ 7.2 millions were exported, so that imports exceeded exports by ℛ.ℳ 205.0 millions. Of the gold imported ℛ.ℳ 30.6 millions went to private enterprise and ℛ.ℳ 174.4 millions to the Reichsbank.

The following table shows the monthly increase or decrease in the total gold holdings of the Reichsbank:

Month	Increase or decrease (in millions of reichsmarks)
September, 1927	— 0.6
October, 1927.....	— 0.8
November, 1927	+ 5.7
December, 1927	+ 7.7
January, 1928	+ 0.6
February, 1928	+ 23.1
March, 1928	+ 42.4
April, 1928..	+ 110.2
May, 1928.....	— 0.1

The increase in February was mostly derived, as announced by the Reichsbank, from Russian sales, and that of March and April from Russian and American sales.

Devisen.

The Devisen shown in the returns amounted:

on August 31, 1927, to	ℛ.ℳ 157,309,000,
» October 31, 1927, to	» 161,446,000,
» December 31, 1927, to	» 281,986,000,
» February 29, 1928, to	» 281,953,000,
» April 30, 1928, to	» 167,737,000,
» May, 31, 1928, to	» 274,051,000.

Cover in bills and cheques.

The holdings of the Reichsbank in bills and cheques were as follows:

on August 31, 1927	ℛ.ℳ 2,661,635,000,
» October 31, 1927	» 2,802,380,000,
» December 31, 1927	» 3,128,656,000,
» February 29, 1928	» 2,336,275,000,
» April 30, 1928	» 2,492,874,000,
» May, 31, 1928	» 2,469,399,000.

The circulation of the notes of the Reichsbank and the cover held have been regularly subject to control by the Commissioner.

c. Redemption of Reichsbank notes.

Under § 31 of the Bank Law, the Reichsbank is obliged to redeem its notes to bearer, at the option of the bank, in German gold coins, in gold bars, or in cheques or orders to pay in foreign currency. According to § 52, however, the coming into force of this provision requires a combined decision of the Reichsbank Directorate and the General Council. So far no such decision has been taken, and accordingly the Bank is at present under no legal obligation to redeem its notes.

The policy of the Reichsbank in this matter will be discussed under section XI, k, below.

d. The old notes of the Reichsbank.

In the Report for the year 1926/27 it was already stated that the return of the notes issued by the Reichbank before the coming into force of the Bank Law of August 30, 1924, which became worthless as at July 5, 1925, had almost entirely ceased. On May 31, 1928, only ℛ*M* 10.5 millions had not yet been returned to the Bank. It is to be assumed that a large part of these old notes, for the exchange of which the Reichsbank still offers facilities at its head office in Berlin, are no longer in existence or for other reasons will not be presented for exchange.

III. Other media of payment.

Under § 1 of the Bank Law, the Reichsbank has among other duties that of regulating the circulation of money in the whole of the Reich.

In addition to the notes issued by the Reichsbank there are also in circulation in Germany the notes issued by the Rentenbank, the notes of the four Private Banks of Issue and also coins.

Diagram I shows, besides the circulation of Reichsbank notes, that of the other instruments of payment for the period from October 15, 1924, (first weekly statement of the Reichsbank under the Bank Law of August 30, 1924) to May 31, 1928. The figures on which the diagram is based are given in Annex B to the present Report.

a. Rentenbank notes.

The Rentenbank notes were brought into circulation in virtue of the Decree for the formation of the Deutsche Rentenbank of October 15, 1923; they were issued partly in connection with the Rentenbank loan to the Reich, which originally amounted to ℛ*M* 1,200 millions, and partly as a result of the " economic credits " granted in the form of bills of exchange, from which agriculture chiefly benefited, and actually drawn upon to a maximum amount of originally ℛ*M* 880.3 millions. The total circulation was thus originally ℛ*M* 2,080.3 millions.

Under § 5 of the Law for the Liquidation of Rentenbank Notes in Circulation, the total amount of Rentenbank notes in circulation has to be liquidated by the Reichsbank in not more than ten years.

Under § 6 of the Law a special sinking fund is to be formed for the purpose at the Reichsbank and under its administration; the fund is supplied from the following sources:

a) interest payments on landed property effected by the mortgagers charged in favour of the Rentenbank,

b) contributions of the Reich to the amount of ℛ.ℳ 60 millions per annum,

c) share of the Reich in the profits of the Reichsbank.

The Rentenbank notes paid into sinking fund have to be destroyed by the Reichsbank. In so far as the above mentioned payments are made in reichsmarks, the Reichsbank has in exchange to withdraw Rentenbank notes from circulation and to destroy them.

The "economic credits" to which reference was made above were to be liquidated within three years. As already stated in the annual Report for 1926/27, the liquidation of the credits was terminated on November 30, 1927, with the repayment of the last instalment to the amount of ℛ.ℳ 293.4 millions. The destruction of the Rentenbank notes handed over to the Reichsbank in this connection was completed at the end of December, 1927.

Up to May 31, 1928, the Reichsbank had received ℛ.ℳ 1,400.0 millions in all for redemption, as against ℛ.ℳ 1,038.0 millions on August 31, 1927; the payments are made up as follows:

	August 31, 1927	May 31, 1928
	(in millions of ℛ.ℳ)	
Under § 7a of the Law (interest payments on landed property effected by the mortgagers charged in favour of the Rentenbank)	189.1	232.2
Under § 7b of the Law (contribution of the Reich amounting annually to ℛ.ℳ 60 millions)	165.0	210.0
Under § 7c of the Law (share of the Reich in the profits of the Reichsbank)[1]	72.0	77.5
Under § 11 of the Law (liquidation of the "economic credits" granted by the Rentenbank)	611.9	880.3
	1,038.0	1,400.0

[1] During the business years 1924 to 1927 this share amounted to ℛ.ℳ 55.6, 12.2, 4.2 and 5.5 millions respectively.

Under § 11 of the Rentenbank Liquidation Law, the Rentenbank has to pay to the Reichsbank a share of the interest obtained from the liquidation of the above mentioned "economic credits", this share to be calculated on the capital amounts in question at $^{7}/_{10}$ per

annum of the Reichsbank discount rate, but not to exceed 7 per cent per annum. The Reichsbank has in consequence a claim on the Rentenbank to the amount of ℛℳ 70.1 millions which by an earlier agreement is postponed until the final liquidation of the Rentenbank. This sum, however, has already been used by agreement to reduce the circulation of Rentenbank notes, an equivalent amount of Rentenbank notes having been placed under earmark at the Reichsbank in January, 1928.

During the period under report the circulation of Rentenbank notes (since January, 1928, without the amount under earmark at the Reichsbank) has been as follows:

August 31, 1927	ℛℳ	1,007,189,000,
October, 31, 1927	»	896,282,000,
December 31, 1927	»	716,231,000,
February 29, 1928	»	630,416,000,
April 30, 1928	»	609,306,000,
May 31, 1928	»	586,228,000.

The debt of the Reich to the Rentenbank has been reduced to:

ℛℳ 845.9 millions	on	August 31, 1927,
» 765.9 »	»	April 30, 1928.

The net profit of the Rentenbank amounted to ℛℳ 14.1 millions in 1927. From this net profit no transfer was made to the Rentenbank-Kreditanstalt; it was appropriated to the profits reserve fund, which increased in consequence to ℛℳ 52.7 millions. This retention of the net profits seemed advisable — as explained in the Report of the Rentenbank for the business year 1927 — in view of the liabilities under the Rentenbank Decree and the Rentenbank Liquidation Law, the full effects of which cannot yet be foreseen; a further argument in its favour was the fact that the profits of the Rentenbank, owing to the heavy decline in the profitable business which it is allowed to transact, will in future be very small.

b. Notes of the Private Banks of Issue.

The note circulation of the Private Banks of Issue (the Bayerische Notenbank, the Württembergische Notenbank, the Sächsische Bank and the Badische Bank), the maximum figure for which is fixed by the Bank Law of August 30, 1924, at a total of ℛℳ 194 millions, was:

on August 31, 1927	ℛℳ	184,712,000,
» October 31, 1927	»	188,063,000,
» December 31, 1927	»	188,668,000,
» February 29, 1928	»	185,387,000,
» April 30, 1928	»	185,233,000,
» May 31, 1928 (provisional figure)	»	186,000,000.

c. Coins.

The new gold coins of ℛ.ℳ 10 and 20 for which provision is made in § 2 of the Coinage Law of August 30, 1924, have not yet been minted. There are no longer any considerable amounts in circulation of the gold coins coined under former laws (which are still legal tender under § 4 of the new Coinage Law).

The following coin was in circulation:

on August 31, 1927	ℛ.ℳ	740,187,000,
» October 31, 1927	»	788,703,000,
» December 31, 1927	»	835,257,000,
» February 29, 1928	»	841,336,000,
» April 30, 1928	»	872,207,000,
» May 31, 1928 (provisional figure)	»	881,000,000.

These coins are issued by the Reich and put into circulation by the Reichsbank as circumstances require. According to § 8 of the Coinage Law, the aggregate amount of coins of the denomination of ℛ.ℳ 5 and under may not exceed ℛ.ℳ 20 per head of the population. At the end of April, 1928, the circulation of coins, including ℛ.ℳ 148.3 millions in Rentenbank notes for ℛ.ℳ 5, was about ℛ.ℳ 16.35 per head of the population, as against approximately 12.50 marks per head in 1914.

In the second half of 1927 a beginning was made with the exchange of the aluminium-bronze 50 Pfennig pieces for nickel coins of the same value; the coins are still being exchanged.

The following table shows the changes in the composition of the coins in circulation.

Circulation of coins
(in millions of reichsmarks)

	August 31, 1927	April 30, 1928	Increase or decrease
Silver coins			
for ℛ.ℳ 5	8.9	132.0	+ 123.1
» » 3	151.3	150.5	— 0.8
» » 2	189.3	189.5	+ 0.2
» » 1	258.2	257.5	— 0.7
Pfennig coins			
for ℛpf 50	55.7	61.0	+ 5.3
» » 10	50.1	53.0	+ 2.9
» » 5	21.7	22.8	+ 1.1
» » 2	2.3	2.8	+ 0.5
» » 1	2.7	3.1	+ 0.4
Total	740.2	872.2	+ 132.0

The Reichsbank holdings of coins show no considerable change. On May 31, 1928, the holdings amounted to ℛℳ 76 millions as against ℛℳ 81 millions on August 31, 1927.

IV. Payments effected otherwise than in cash.

In the annual Report for 1926-27 some account was given of the very important transactions in Germany where payment is effected otherwise than in cash. The figures there given are supplemented below:

Turnover of the Giro system of the Reichsbank and the Postal cheque service

	Giro business of the Reichsbank	Postal cheque business
	(in milliards of reichsmarks)	
1924	465.5	78.5
1925	472.4	110.8
1926	539.4	114.8
1927	628.8	136.1

The clearing business of the Reichsbank developed as follows during the period under report:

Total clearing business of the Reichsbank
(in millions of reichsmarks)

Month	Turnover		Totals
	Clearing business	Berlin express business (Eilavisverkehr)	
September, 1927	6,271	2,389	8,660
October, 1927	6,903	2,671	9,574
November, 1927	6,375	2,689	9,064
December 1927	6,936	2,570	9,506
January, 1928	6,969	3,087	10,056
February, 1928	6,241	2,707	8,948
March, 1928	7,203	2,976	10,179
April, 1928	6,724	2,862	9,586
May, 1928	6,897	3,164	10,061

The telegraphic Giro system of the Reichsbank in Germany, which was introduced on December 20, 1926, developed satisfactorily. The head office of the Reichsbank and the branch offices despatched, in 1927, 62,429 of these transfers to a total value of ℛ.ℳ 7.7 milliards or 12 per cent of the total inter-urban transfers.

The international Giro system was also extended during the period under report. On March 24, 1928, Ireland joined the system. The following countries now participate (in alphabetical order): Austria, Belgium, Czecho-Slovakia, Danzig, Denmark, Esthonia, Finland, France, Great Britain, Hungary, Ireland, Latvia, Lithuania, the Netherlands, Norway, Sweden, Switzerland and the United States of America.

Giro transactions with Danzig, Holland and Switzerland now cover not only transfers to the holders of accounts with the banks of issue, but also transfers to postal cheque accounts and transfers to be paid out to persons or firms who have neither a Giro account with the bank of issue nor a postal cheque account.

Transactions with Denmark have recently been extended to cover persons and firms who have no account with the National Bank in Copenhagen.

In view of the fact that the system is suited more especially to the transfer of small amounts, the total value of the 10,987 transfers effected in 1927 (ℛ.ℳ 39 millions) is not unsatisfactory.

V. Capital issue business of the Reichsbank.

During the period under report the Reichsbank continued to function as Paying Agent for the service of the 7 per cent German External Loan 1924.

The Bank was also engaged in the commutation of old paper mark loans of the Reich into Loan Liquidation Debt. This work is not yet terminated.

In February, 1928, the Reichsbank headed the consortium for the issue of G.ℳ 125 millions (1 gold mark being the equivalent of $^1/_{2790}$ kg. of fine gold) of 7 per cent preference shares Series V of the German Railway Company. Of the total amount G.ℳ 100 millions were issued for public subscription in the period from February 8, to February 14, 1928, inclusive, the balance of G.ℳ 25 millions, which is blocked until the end of 1928, being retained at the disposal of the Reichsbahn. The rate of issue was 93.5.

As in the case of Series IV, the Reich has guaranteed the payment of the 7 per cent preference dividend to the shareholders of Series V.

The Reichsbank has undertaken the administration and custody of the preference shares Series V as Trustee; it issues certificates to bearer (Group II) in exchange for the shares.

The certificates are accepted as collateral by the Reichsbank in accordance with § 21 point 3 of the Bank Law, and are also accepted as cover for loans by the Prussian State Bank (Seehandlung).

Only the certificates are quoted on German Bourses.

The results of the subscription were so favourable that the consortium exercised its option to a further *G.M* 100 millions of preference shares even before the shares were allotted.

VI. Relation of the Reichsbank to the Reich.

Since February, 1928, the Reichsbank, acting for the Finance Ministry of the Reich, offered for sale—in part on the open market—Treasury bills of the Reich. The bills run for 80—90 days and are drawn to the order of the bank which takes them over. The private discount rate was allowed (February 6—$6^1/_2$ per cent, March $6^1/_2$—$6^5/_8$ per cent, April $6^1/_2$—$6^3/_4$ per cent, May $6^5/_8$ per cent). The sales on the open market were not inconsiderable in amount, but on the whole it may be said that they remained within comparatively narrow limits.

In accordance with the Law of July 8, 1926, in amendment of the Bank Law, Treasury bills issued by the Reich and endorsed by an obligee of known solvency in addition to the Reich may be discounted and accepted as collateral by the Reichsbank up to a maximum amount of *R.M* 400 millions. On April 30, 1928, Treasury bills of the Reich for *R.M* 1 million were for the first time discounted by the Reichsbank.

In regard to the working credits to be granted to the Reich to an amount not exceeding *R.M* 100 millions under § 25 of the Bank Law, the Reich has had recourse to such credits on various occasions and more especially at the end of the month.

On April 1, 1928, a new Reichskassenordnung (of August 6, 1927) laying down regulations with regard to the receiving offices of the Reich came into force.

Under these regulations the receiving offices of the Reich are divided into the Reichshauptkasse, which is the central office, the Oberkassen and the Amtskassen. When the Reichsbank was founded in 1875, the Reichshauptkasse, which had previously been an independent office, was transferred to the Reichsbank and the latter from that time onwards transacted the business of the Reichshauptkasse. In 1924 the Reichshauptkasse was again separated from the Reichsbank and incorporated as an independent department in the Finance Ministry of the Reich.

This arrangement is retained in the new regulations. The Reichshauptkasse receives the surplus balances of the offices under its authority and provides them with such additional cash as they may require. The cash of the Reichshauptkasse is kept mostly

with the Reichsbank. Any investment at interest of the credit balance of the Reichshauptkasse is made upon instructions from the Finance Minister of the Reich and in agreement with the Reichsbank.

VII. Facilities for loans against Reich loan bonds collateral.

The procedure laid down in § 21 of the Bank Law for the grant of loans against Reich loan bonds collateral has been simplified by a new provision in regard to the necessary bank guarantee, under which the bank guarantee now comes into force automatically upon the grant of the loan by the Reichsbank against the security of the Reich loan bonds. This provision was announced by the Finance Ministry of the Reich on January 26, 1928, as follows:

> "In accordance with § 21 point 3 last paragraph of the Bank Law of August 30, 1924, the granting of loans by the Reichsbank on the security of long-term bonds of the Reich is admissible on condition that surety is furnished by two obligees, one of whom must be a bank carrying on business in Germany. An association of banks under the leadership of the Reichsanleihe A. G. has now been formed, the members of which have notified their willingness to assume free of commission the additional guarantee required of the borrower under the Bank Law. Moreover, the borrowers making use of this arrangement will not be obliged to stamp the written guarantee. The borrower does not require to place himself in touch with the bank assuming the guarantee for the loan in question. As in the case of borrowing on other securities, he merely applies to the Reichsbank branch entrusted with his business, where he will receive any necessary information and can immediately comply with the necessary formalities. The obtaining of the guarantee will not delay payment. Of the long-term bonds of the Reich the following are now accepted as collateral by the Reichsbank: Loan Liquidation Debt of the German Reich with drawing certificates, 6 per cent Reich loan 1927 and 6½ per cent Treasury bonds of the German Reichspost."

It will be recalled that in conformity with § 21 of the Bank Law loans for which long-term bonds of the Reich have been offered as collateral may never exceed the amount of the paid-up capital of the Bank and its reserve fund, which at the present time totals ℛ𝑀 166.5 millions.

VIII. Public funds.

The question of the administration of the public funds has already been dealt with in previous Reports, in particular in the Report of June, 1927, in which it was stated that the Reichsbank had concluded satisfactory arrangements with the Finance Ministry, the Post Office and the Railway Company.

The afore-mentioned agreement with the Railway in regard to the investment of part of the Company's funds expired on December 31, 1927. Since then a new agreement has been concluded between the Reichsbank and the Railway Company under which, although a considerable proportion of the funds will continue to be in the hands of the Verkehrs-Kreditbank, especially to finance the deferred freight payment business, on the other hand any additional cash in hand will be placed to the account of the Verkehrs-Kreditbank with the Reichsbank, to be invested by the latter institution in agreement with the Verkehrs-Kreditbank partly through the intermediary of the Golddiskontbank on lines similar to those laid down in the 1927 agreement. In this connection a change was made in the method of collection. The receipts of the station offices in places where there is a branch of the Reichsbank, which formerly were as a rule paid into the accounts of the Verkehrs-Kreditbank with private banks, are now paid direct into the account of the Verkehrs-Kreditbank with the local Reichsbank branch. The funds derived from deferred freight payments and the station cash balances in those places where there is no branch of the Reichsbank continue to be paid into the accounts with private banks. For the time being this new procedure is to be confined to the area of the former Prussian-Hessian State railways.

The new regulations of August 6, 1927, with regard to the receiving offices of the Reich have been discussed under VI above.

There has been a considerable decline in the volume of public funds and consequently in the part played by them on the money market and in relation to the discount policy of the Reichsbank.

IX. Financial results of the Reichsbank for 1927.

Below some figures are given showing the financial results of the Reichsbank for 1927 which are taken from the annual Report submitted to the general meeting on March 14, 1928.

In 1927 the profits of the Reichsbank increased owing to the rise in the bill holdings and the raising of the discount rate. The profits on bills and cheques amounted in 1927 to ℛ𝑀 130.7 millions as against ℛ𝑀 98.7 millions in 1926. The total gross profit, which in 1926 was ℛ𝑀 112.9 millions, was increased in consequence to ℛ𝑀 149.1 millions in 1927. After deduction of administration costs to the amount of ℛ𝑀 75.1 millions (1926: ℛ𝑀 83.3 millions) and of the reserves held for the printing of new notes and building purposes to the amount of ℛ𝑀 11.6 millions and ℛ𝑀 21.3 millions respectively (1926: reserve for the printing of new notes, nil; reserve for building purposes ℛ𝑀 6.8 millions) and further of the transfer to the Del credere fund to the amount of ℛ𝑀 15 millions (1926: nil), the net profit left to the Bank was ℛ𝑀 26.1 millions (1926: ℛ𝑀 22.8 millions).

In accordance with the provisions of § 37 of the Bank Law, 20 per cent of the net profits, or ℛ𝑀 5.2 millions (1926: ℛ𝑀 4.6 millions), was appropriated to the legal reserve, which was raised

in consequence to ℛ.ℳ 43.7 millions (1926: ℛ.ℳ 38.5 millions), while the Reich received ℛ.ℳ 5.5 millions (1926: ℛ.ℳ 4.2 millions) which under § 7c of the Rentenbank Liquidation Law were used for the amortisation of Rentenbank notes. There remained for the shareholders ℛ.ℳ 15.3 millions (1926: ℛ.ℳ 14 millions), out of which a 12 per cent dividend (1926: 10 per cent) was distributed on the paid-up capital of ℛ.ℳ 122,788,100, the balance of ℛ.ℳ 0.6 millions (1926: ℛ.ℳ 1.7 millions) being carried to the special reserve fund for future payments of dividends. This fund was thus increased to ℛ.ℳ 45.5 millions (1926: ℛ.ℳ 44.9 millions) at the end of 1927.

The Del credere fund was increased by the above mentioned transfer to ℛ.ℳ 65 millions (1926: ℛ.ℳ 50 millions). The reserves for the printing of new notes and for building purposes, both of which amounted to ℛ.ℳ 15 millions at the end of 1926, were drawn upon in 1927 to the amount of ℛ.ℳ 1.6 and ℛ.ℳ 11.3 millions respectively (1926: nil and ℛ.ℳ 6.8 millions respectively). By the transfers mentioned above these reserves were raised at the end of 1927 to ℛ.ℳ 25 millions each.

X. Golddiskontbank.

In continuation of the information furnished in previous Reports on the Golddiskontbank, some data may here be given on the development of business during the period under report, which are taken from the monthly statements and the annual Report of the Golddiskontbank for 1927.

Date	Bills and cheques	Rediscounted bills	Securities	Liabilities at call	Time liabilities
	in £ 1000				
1927					
August 31	6,002.6	1,311.3	13,786.9	5,466.6	6,363.2
September 30	5,711.1	1,188.5	13,375.9	5,747.9	5,384.2
October 31	6,210.1	1,118.3	12,855.3	6,189.1	4,894.8
November 30	11,067.1	1,140.3	14,250.0	4,997.6	12,292.0
December 31	1,081.8	2,396.9	13,720.0	1,526.8	5,212.9
1928					
January 31	502.3	2,533.1	13,640.0	2,082.6	3,401.9
February 29	1,082.9	2,536.3	13,630.4	3,736.9	2,359.3
March 31	2,915.0	2,506.5	13,172.8	6,084.9	1,380.3
April 30	314.7	2,218.6	12,759.1	3,426.6	646.1
May 31	2,839.3	2,320.0	12,494.8	2,079.7	4,638.7

The volume of time liabilities has dropped constantly since November, 1927, when the proceeds of the third external loan of the Rentenbank-Kreditanstalt were provisionally deposited with the Golddiskontbank.

The deposit of part of the proceeds of the Rentenbank-Kreditanstalt's fourth foreign loan amounting to $ 25 millions with the Golddiskontbank caused at the end of May a fresh rise of time liabilities, and consequently of the bill holdings.

The liabilities at call vary in conjunction with the cash position of the public departments which deposit funds with the Golddiskontbank. The funds received by the Golddiskontbank are to a large extent passed on to the private discount market.

The decline to be noted as early as 1926 in the holdings of export bills persisted throughout 1927. The total for export credits granted by the Golddiskontbank, which at the beginning of 1927 was still almost £ 4 millions, had fallen by the end of the year to £ 3,070,000.

The following are the totals for bills purchased:

3 574	bills to the value of	£	6,594,593.10.2
121	» » » » »	$	2,014,172.44
1 862	» » » » »	*RM*	72,540,548.67.

The annual Report of the Reichsbank for 1927 states that "in general the discount activities of the Golddiskontbank have decreased in accordance with the policy of bringing it gradually to a natural end. The co-operation of the Golddiskontbank in the administration of the public monies is also likely to end in the near future, the efforts of the Reichsbank to administer these funds for the account of the interested parties having now obtained recognition in the case of nearly all the departments concerned."

In 1927 no recourse was had to the foreign commitment credit to the amount of $ 30 millions, to which reference was made in the annual Report for 1926/27, or indeed to any foreign credits. The commitment credit, which under the agreement was to have expired on July 1, 1928, was rearranged in April, 1928. At the same time it was stated that recourse had not yet been had to the credit and was not contemplated for the future.

It will be remembered that the item "securities" includes, in addition to other securities, the 3 to 5 year 7 per cent mortgage bonds of the Rentenbank-Kreditanstalt. These bonds were taken over in execution of the agreement concluded in 1926 with the Rentenbank-Kreditanstalt. In 1927 a further block of these bonds was taken over, some of which were sold to third parties and

others included in the holdings of the Golddiskontbank for its own account. The total amount of this transaction, which has now come to an end, is ℛℳ 355,716,000. On December 31, 1927, the Golddiskontbank held ℛℳ 265,316,000 of these bonds for its own account.

The net profits earned in 1927 amounted to £ 720,700 (1926: £ 510,200). Of this sum 5 per cent, *i. e.* £ 36,000 (1926: £ 25,500), was transferred to the legal reserve, as a result of which the reserve was increased to £ 106,200 at the end of 1927 (1926: £ 70,100). £ 675,000 (1926: £ 308,500) were carried to the special reserve, which was raised in consequence to £ 1,675,000 (1926: £ 1,000,000), the balance of £ 9,700 (1926: £ 1,200) being carried forward to the next year. The Del credere fund remained unchanged at £ 290,000 in the balance-sheet.

Administrative costs totalled £ 22,950 in 1927 (1926: £ 22,000).

Since June 11, 1927, the discount rate has been 6 per cent.

XI. Some aspects of Reichsbank policy.

For a proper understanding of the policy pursued by the Reichsbank a brief review is also contained in this interim report of the general economic position of Germany during the period covered by it.

a. Development of the general conjuncture.

The various figures, the most characteristic of which are given below, show that generally speaking the conjuncture in Germany has until recently remained at the same high level as that reached during the summer of 1927. A certain falling off, it is true, was already to be found in some branches of industry; but seasonal influences must be taken into consideration to some extent. According to the last figures available the downward tendency has become more marked. It is, however, too early to say whether this will lead to a general falling off of the conjuncture.

Amongst the factors which may affect the further development of the conjuncture, increasing labour difficulties must be taken into consideration. A further characteristic of the present state of affairs is the increasing divergence between the prices calculated on the inland market and on the foreign market in the case of a number of mass products to the disadvantage of the first mentioned. These price differences, made possible by the extensive cartel regulations governing the internal market, which allow of a complete exploitation of the freight and custom position, have been well-known phenomena in Germany for a long time past. Latterly in particular inland prices for iron and steel have been further incre-

ased, whilst the recent rise in the price of coal of ℛℳ 2 per ton can also only be effective in districts where the lower prices of foreign competitors do not make this impossible.

Month	Output of coal (1000 tons)	Output of crude steel (1000 tons)	Index figures of output: Basic industries	Index figures of output: Transforming industries	Index figures of output: Total	Buildings completed (total no. of buildings)	Unemployment (in 1000)	Proceeds from bill stamp duty (in million reichsmarks)	Insolvencies	No. of freight cars furnished by the Railway Company (1000 cars)
			1924/26 = 100							
1925										
March	11,412	1,209	112.0	111.6	111.8	—	466	7.5	776	3,042
June	9,891	1,109	107.3	106.8	107.1	—	195	7.8	776	2,938
September..	11,355	876	100.4	110.0	103.3	—	266	4.4	914	3,240
December ..	11,367	765	100.3	112 8	104.1	—	1,499	3.3	1,660	2,784
1926										
March	11,424	949	94.4	88.4	92.5	—	1,942	3.2	1,871	3,154
June	11,756	976	97.7	84.0	93.4	1,844	1,741	2.9	913	3,261
September..	12,876	1,144	108.6	101.1	106.2	2,092	1,394	2.8	467	3,637
December ..	13,783	1,303	121.4	117.9	120.3	3,291	1,749	3.3	435	3,623
1927										
January....	13,355	1,309	121.8	117.1	120.3	2,353	1,827	3.0	493	3,216
February...	12,744	1,234	123.1	120.0	122.0	1,880	1,696	3.2	473	3,245
March	14,046	1,416	123.2	123.9	123.3	2,587	1,121	3.8	557	3,888
April	11,794	1,288	121.5	124.0	122.3	2,022	870	3.4	421	3,489
May.....	12,298	1,378	122.9	127.8	124.3	2,177	649	3.7	464	3,790
June	11,820	1,328	121.6	119.6	121 0	2,308	541	3.7	427	3,709
July	12,653	1,362	119.9	123.6	121.0	2,404	452	3.7	428	3,905
August	12,998	1,432	121.1	124.0	121.9	2.546	404	3 9	407	4,059
September..	12,710	1,375	125.7	130.2	126.9	2,845	356	4.0	360	4,086
October....	13,095	1,414	124.4	126.6	125.0	3,333	340	4.2	445	4,326
November..	12,864	1,401	129.0	130.0	129.3	3,597	605	4.2	574	4,156
December..	13,239	1,368	128.9	125.5	126.5	4,329	1,188	4.3	619	3,811
1928										
January....	13,421	1,469	129.5	132.4	127.8	2,678	1,333	4.5	766	3,541
February...	12,926	1,323	—	—	128.0	2,234	1,238	4.0	699	3,584
March	14,117	1,423	—	—	126.9	2,948	1,011	4.7	791	4,069
April	11,715	1,161	—	—	122.5	—	729	4.1	614	3,439

In connection with the figures for unemployment it should be observed that the increase in the number of persons in receipt of ordinary unemployment relief towards the end of the year was due, apart from the normal economic causes, to the new legislation on unemployment introduced on October 1, 1927. Since that date unemployment relief out of public funds has been replaced by a system of unemployment insurance, the effect of which is that the method of examining the necessity of the case hitherto in force has been abolished and replaced by a legal claim to relief. The new Law will have influenced the increased figure for unemployment to an extent which cannot be estimated with any degree of accuracy; but its effect is counterbalanced to some extent by the fact that under the new system former recipients of ordinary relief are now transferred to emergency relief, thus reducing the number of recipients of ordinary relief.

The proceeds from the bill stamp duty are now included. Although for several reasons due reserve is required as to the conclusions to be drawn from the figures for the separate months, it is nevertheless clear that on the whole the bill circulation in Germany has greatly increased during the last two years. On September 1, 1925, the rate of this duty was reduced by one half.

Insolvencies have increased since September 1927; but it must be remembered that here too there has been fresh legislation, and any comparison of figures before and after October 1, 1927, must be subject to reserves.

A similar tendency is revealed by the figures for bill protests, which are not included in the table.

With regard to turnover, the estimates of the Institut für Konjunkturforschung show that trade turnover has remained approximately the same as in the last quarter of 1927, apart from the customary seasonal fluctuations. The figures for clearing transactions at the Reichsbank agree with these figures. The number of cars furnished by the Railway has also (after the conclusion of the seasonal traffic rush) not risen further since the beginning of March. If these seasonal fluctuations are eliminated it is found that the number of cars furnished is somewhat below that of the last quarter of 1927.

As against this there was—apart from an increase in the retail trade exceeding the customary seasonal expansion—a marked growth of exports which in March 1928 touched a figure (*RM* 1 milliard) which is the highest recorded since 1924. There was a slight falling off in April due chiefly to that month containing fewer working days.

b. Movement of prices.

A comparison of the general movement of prices in Germany, Great Britain and the United States may be obtained from the

following diagram. The index numbers for Germany's wholesale prices have been taken from the publications of the Statistical Office of the Reich, and those for Great Britain and the United States from the statistics of the British Board of Trade and the American Bureau of Labour Statistics respectively.

The year 1926 has been taken as the basis of the three curves: they are consequently comparable not so much in respect of the actual amounts as in respect of their general trend.

It will be apparent from the Diagram that since 1926 prices in Germany have shown a certain tendency to rise, whereas in Great-Britain (since the end of 1926) and in the United States (since the middle of 1926) they have begun to move on a lower level.

Diagram IV.

Index numbers of wholesale prices for Germany, England and the United States.

(1926 = 100.)

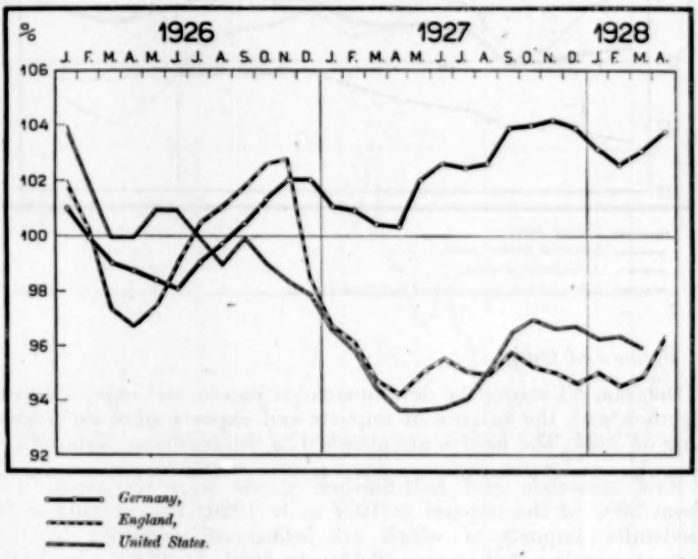
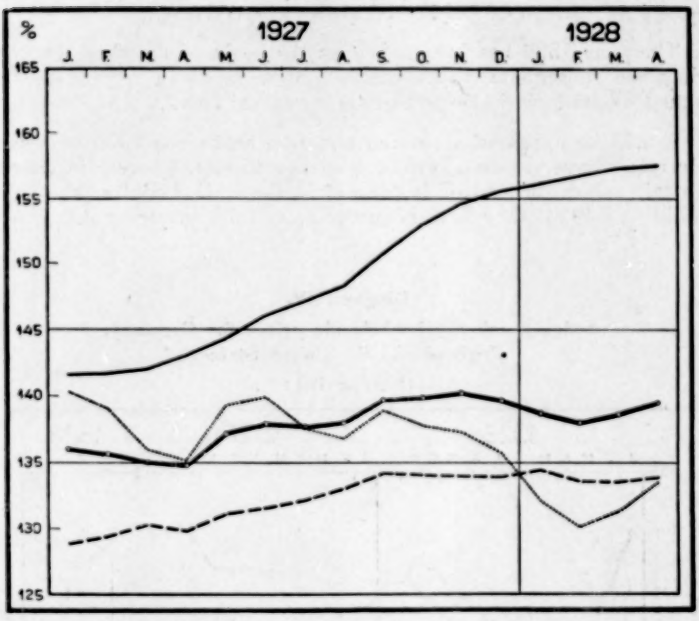


Diagram V gives more detailed evidence of the character of the price movement in Germany. The prices of agricultural products, which showed a general tendency to decrease since the beginning of 1927, have increased since March, 1928. The prices of industrial finished goods are steadily rising. At the beginning the consumption goods, such as textiles, revealed the greatest increase, but since December articles of production have shown a similar tendency.

Diagram V.

Index numbers of German wholesale prices.

(1913 = 100.)



General index,
Industrial finished goods,
Agricultural products,
Industrial raw materials and half-finished goods.

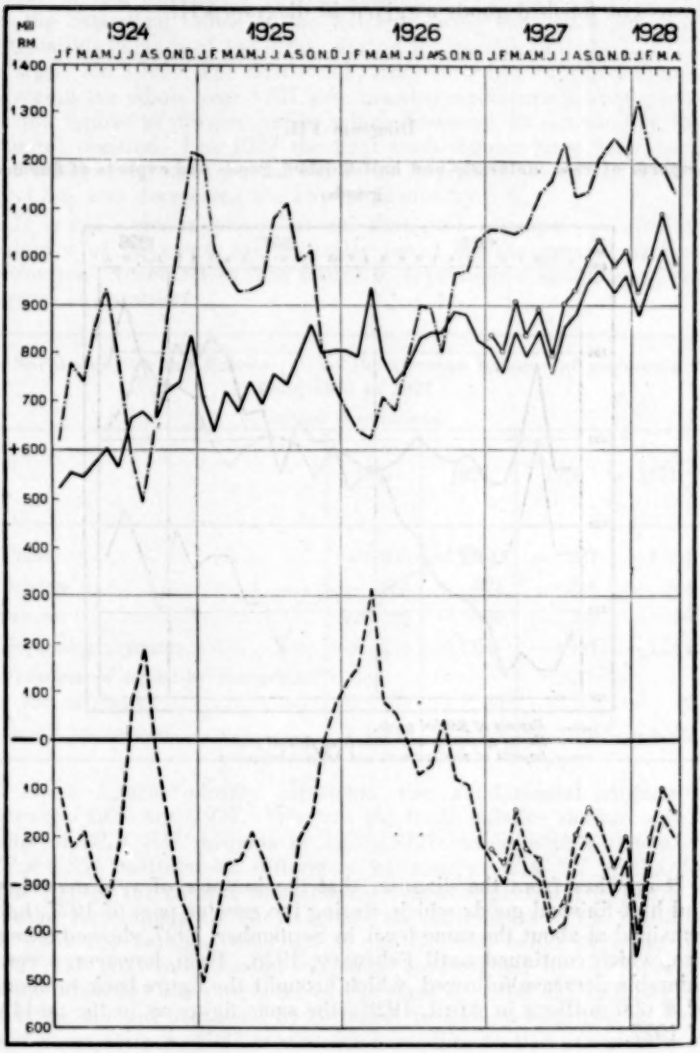
c. Balance of trade.

Diagram VI shows the development of import and export figures together with the balance of imports and exports since the beginning of 1924. The figures are attached to the report as Annex G.

Raw materials and half-finished goods were responsible for about 50% of the imports in 1927 as in 1926. The proportion of foodstuffs, imports of which are influenced primarily by the harvest results, fell from 36.6% in 1926 to 30.8% in 1927, whilst the proportion of finished goods rose from 13.3% to 17.4%. This last increase is chiefly due to the increase in imports of those goods which are to some extent re-exported after further transformation in Germany. The large increase in imports of fodder is also to be ascribed to similar causes.

Taking the exports, finished goods come first with 73.9% (71.0% in 1926). Raw materials and half-finished goods accounted for 21.9% in 1927 (21.1% in 1926), and foodstuffs for 4.1% (4.8% in 1926).

Diagram VI.
Germany's imports and exports.

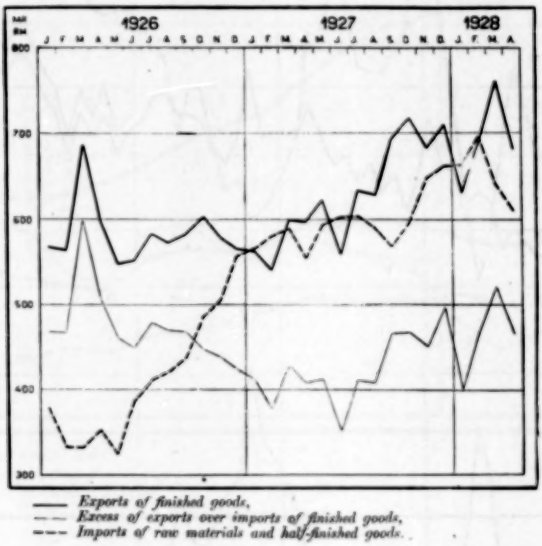


Imports,
Exports including deliveries in kind,
Exports without deliveries in kind,
Balance of trade including deliveries in kind,
Balance of trade without deliveries in kind.

Particular importance attaches to the development of the import figures of raw materials and half-finished goods and of the export figures of finished goods as given in diagram VII.

Diagram VII.

Imports of raw materials and half-finished goods and exports of finished goods.



Exports of finished goods,
Excess of exports over imports of finished goods,
Imports of raw materials and half-finished goods.

It appears from the diagram that the imports of raw materials and half-finished goods which, during the greater part of 1927, had remained at about the same level, in September, 1927, showed a new rise, which continued until February, 1928. Then, however, a considerable decrease followed, which brought the figure back to about *R.M* 600 millions in April, 1928—the same figure as in the middle of 1927.

The export of finished goods shows since the beginning of 1927 a general tendency to rise with not unimportant fluctuations.

As on the other hand also the imports of finished goods have increased to some extent, the curve of the excess of exports over imports of finished goods (see diagram VII) shows a somewhat slighter rise than the curve of the export figures. Nevertheless here too the tendency is clearly to rise.

d. Balance of payments.

The annual Report for 1926/27 contained some figures assembled by the Statistical Office of the Reich showing the development of Germany's balance of payments during the period January 1, 1924, to June 30, 1927. The Statistical Office now has supplied figures covering the whole year 1927 and has also made certain corrections in the figures of former years, which however do not modify the general position. For 1927 the final trade figures have been used, corrected in the same way as before by increasing the export figures by 1.5% and decreasing the import figures by 3%.

It is not necessary to point out that such attempts to calculate balances of payments are naturally based for the greater part on estimates. Nevertheless it is useful to reproduce a summary of the figures in question.

Surpluses (+) and deficits (—) of the German balance of payments from 1924 to 1927

(in millions of reichsmarks)

	1924	1925	1926	1927
Trade	— 1,803	— 2,400	+ 837	— 2,854
Services	+ 212	+ 321	+ 316	+ 344
Interest	+ 80	— 90	— 200	— 430
Reparation payments	— 284	— 1,057	— 1,191	— 1,584
Transfers of capital by immigrants and emigrants	— 65	— 85	— 75	— 70
Capital transactions	+ 1,860	+ 3,311	+ 313	+ 4,594

These figures clearly illustrate the fundamental difference between 1926 and 1927. Whereas the trade balance showed a surplus of ℛ*M* 837 millions in 1926, 1927 closed with a deficit of ℛ*M* 2,854 millions—a difference of nearly ℛ*M* 3.7 milliards. The figures for capital transactions with foreign countries show a similar development. They include the movements in the holdings of gold and foreign exchange of the German banks of issue. In 1927 the gold and foreign exchange surrendered by the German banks exceeded the purchases of the same by ℛ*M* 452 millions, so that the amount borrowed by Germany in foreign countries on long and short term in 1927 works out according to this calculation at ℛ*M* 4,142 millions. The figure for 1927 surpasses the high figure for 1925 by ℛ*M* 22 millions, taking into consideration in both cases the movements of gold and foreign exchange.

e. Capital transactions with foreign countries.

The Statistical Office of the Reich comes to the above conclusion that on balance Germany borrowed approximately ℛ*M* 4,142 millions abroad in 1927.

It is difficult to analyse in detail the total German capital transactions with foreign countries, especially as the sharp distinction between internal and external loans is gradually beginning to disappear. As is reflected in the quotation lists of foreign Stock Exchanges, increasing quantities of bonds in reichsmarks and gold marks, more particularly mortgage bonds, which are issued in Germany, are being placed abroad while foreign countries are at the same time participating more and more in transactions on the German share market. Of the various domestic issues of the last few months—special mention may be made in this connection of the ℛ𝑀 200 millions of preference shares of the Railway already referred to on page 16—it would appear that larger or smaller quantities have been placed abroad. Some activity in the reverse direction was however also to be noted.

The total for German loans placed abroad, on a basis of the statistics given in the interim Report for 1927 and continued below, may be estimated for 1927 at approximately ℛ𝑀 1,600 millions; for the months January to May inclusive of the current year the probable total is in the neighbourhood of ℛ𝑀 882 millions.

German loans abroad

Month	Public	Mixed	Private	Total
	(in millions of reichsmarks)			
September, 1927	21	11	130	163
October, 1927	147	254	97	498
November, 1927	4	1	84	89
December, 1927	—	—	—	—
January, 1928.....	84	3	—	87
February, 1928.....	14	85	13	108
March, 1928	18	40	124	182
April, 1928	34	14	26	74
May, 1928.....	227	130	74	431

It should further be noted that as an offset against the foreign loans contracted the Statistical Office of the Reich estimates the amortisation and redemption payments by Germany for 1927 in respect of external loans at ℛ𝑀 135 millions, to which it adds an increase during the same period of ℛ𝑀 120 millions in German capital investments abroad.

It appears from the above that during 1927 the short term foreign debt of Germany again increased very considerably. A large part of these credits elude statistical determination. The Statistical Office of the Reich gives some figures. Thus it estimates the increase for 1927 in credits on merchandise granted to Germany by

Foreign debt of Germany in respect of loans at the end of 1927

(Nominal amounts in millions of reichsmarks)

Debtor	Loan debt incurred before 1924	Loans contracted since 1924		Redemption and amortisation payments[2] since 1924		Position of loan debt at end of 1927		
		long term	short term	long term loans	short term loans	long term	short term	Total
Federal States	—	529	210	14	105	515	105	620
Provinces.....	—	26	—	1	—	25	—	25
Communes.....	29	548	17	35	17	542	—	542
Ecclesiastical loans.	—	94	—	2	—	93	—	93
Public undertakings including:	—	671	17	12	3	660	14	673
Gas & Electricity .	—	518	17	9	3	509	14	523
Transport	—	63	—	1	—	62	—	62
Miscellaneous ...	—	91	—	2	—	88	—	88
Private enterprise including:	7	2382	50	139	50	2250	—	2250
Mining	—	787	46	78	46	709	—	709
Potash	—	244	—	12	—	233	—	233
Electro-technical .	—	257	—	27	—	230	—	230
Chemical	—	18	—	4	—	14	—	14
Textiles	—	26	—	2	—	24	—	24
Other industries .	7	314	—	3	—	318	—	318
Total for industry	7	1647	46	126	46	1527	—	1527
Agriculture	—	470	—	9	—	461	—	461
Trade.....	—	25	4	3	4	22	—	22
Shipping.....	—	111	—	—	—	111	—	111
Municipal real property.....	—	129	—	2	—	128	—	128
Total	35	4251[1]	294	202	175	4085	119	4203

[1] Not including the German external loan 1924 (960 millions of reichsmarks nominal) and the loans of the Saar territory (50.4 millions of reichsmarks nominal).

[2] For most of the loans the sinking fund tables were available; for the others the average amortisation quota calculated from the tables has been taken.

foreign countries at ℛℳ 249 millions. On the other hand the additional commercial credits granted by Germany to Russia are valued at the approximate total of ℛℳ 200 millions.

In the customary statistic for German loans abroad the figures for October 1927 have been adjusted. Further, a separate heading "mixed loans" is introduced, including those loans which are public in respect of the debtor but resemble private loans in the purpose to which they are to be devoted, so that they do not immediately fall under either of these heads.

The figures clearly reflect the interruption, to be discussed in more detail below, in the approval of external loans of public

bodies since the autumn of 1927, together with the temporary restriction of the readiness of the American market to absorb German loans.

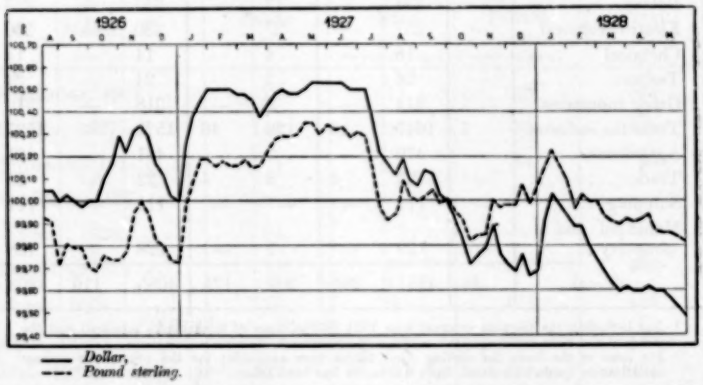
The Statistical Office of the Reich has compiled a general table showing the foreign loan debt of Germany as at the end of 1927. The table takes into account the amortisation and redemption payments already effected and distinguishes between the various groups of debtors. It is given on the preceding page.

f. Development of rates of exchange.

Diagram VIII shows the movements of the pound sterling and of the dollar as from August 23, 1926, the date on which the dollar rate ceased to be fixed by the Reichsbank at 4.20 reichsmarks. The rates are expressed in percentages of parity and can therefore be compared one with another. The figures are given in Annex I. As shown by the diagram, the greatest fluctuations were seldom more than ½ per cent from parity.

Diagram VIII.

Sterling and dollar rates on the Berlin Bourse.
(Weekly averages in percentages of parity)



The graph shows that, apart from some small interruption in January, 1928, the improvement in the reichsmark quotations which began in June, 1927, has continued until the end of May. Since the end of February the pound sterling was continuously under parity in its relation to the reichsmark, while the dollar rate dropped below even the low level reached at the end of March. At first the recent increases in the discount rates of several Federal Reserve Banks, particularly in the New York discount rate on May 17, 1928, have remained without influence in this respect. In the last few days, however, the pound sterling as well as the dollar show a considerable improvement.

The causes which have contributed to this remarkable development are naturally in the first place of an international character.

The strong position of the Reichsmark, which in this development comes to the fore, is partly to be explained by the almost continuously high level of interest rates on the German money market, which was bound to attract further funds from abroad.

In addition, anticipations of the release of sequestrated German property in the United States may have influenced this development. On the other hand the restriction of the external loans of public authorities also falls in this period.

g. Money market.

The general tendency of rates on the money market as from February, 1927, was to rise, and this tendency continued during the period under report until the end of 1927. In the new year the customary relapse set in and persisted during the first two months of 1928. This was followed by a rise until about the end of March; since then the various money rates have been almost stable. The level thus reached is considerably higher than that for the previous year. The rates on foreign money markets too show a certain increase which, however, remains relatively small, so that the attraction for foreign money has grown.

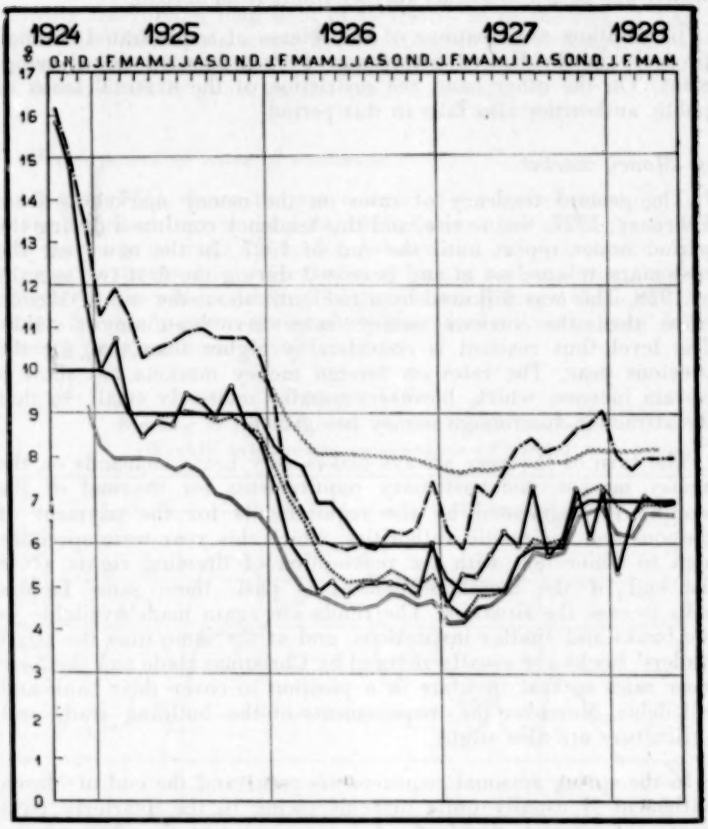
The turn of the year always makes very heavy demands on the money market: the customary requirements for the end of the month are augmented by the requirements for the payment of coupons and for public authorities, which this year were specially high in connection with the redemption of drawing rights. Once the end of the month settlement is past, these same factors help to ease the situation. The funds are again made available to the banks and similar institutions, and at the same time the retail traders' stocks are usually reduced by Christmas trade and the New Year sales so that they are in a position to cover their bank and bill debts. Moreover the requirements of the building trade and agriculture are also slight.

In the spring seasonal requirements recur and the end of March settlement is usually quite difficult owing to the quarterly payments (of interest, dividends and taxation) and the close of the financial year in the case of most public corporations. Also the end of March of this year was difficult. On the other hand various branches of enterprise seem already to have passed the highest point of the conjuncture reached in 1927.

The general development of the money market outlined above was most apparent in the rates quoted for *monthly money*. The monthly average was below 6% in February, 1927, and had risen by December, 1927 to over 9%. During the last week of the year the rate was 9—10%; by the middle of January, 1928, it had fallen to 7—7 3/4 %; in March it rose somewhat again to a figure of 7 3/4—8 1/2 %; in April and May it usually remained at this level and was only for a few days at the end of April as much as 8—8 1/2 %.

Carry-over money, although much influenced by developments on the securities market, showed unmistakably the same tendency.

Diagram IX.
Money rates in Berlin.
(monthly averages)



Reichsbank discount,
Day-to-day money,
Money at one month,
Private discount,
Bills with a bankers' endorsement,
Yield of 8% mortgage bonds.

In this case also the highest rate was reached at the end of the year ($8^3/_4$ to $9^1/_2$ %). Since then the end of the month rates have been as follows:

January	$7^1/_2$—8 %
February	$7^1/_2$—8 »
March	$7^3/_4$—$8^1/_4$ »
April	$7^3/_4$—$8^1/_4$ »
May	$7^3/_4$—$8^1/_4$ »

Throughout the whole of December there was great tension on the market for *day-to-day money*. Only a few days before the end of the month some relief was experienced, for the reason that money borrowed for the end of the month settlement was temporarily loaned out by the borrowers as day-to-day money.

The relaxation in January was accompanied by an unusual abundance of money; the rate for day-to-day money fell to 3—6%, a level not reached since April 1927.

In February the end of the month tension has lasted rather long. Most borrowers had taken up day-to-day money for their end of the month settlements, which meant that the demand for the end of the month and beyond was ultimately much greater than had been expected. A relaxation followed, which, however, was not very marked. It was only interrupted in the middle of the month in connection with tax payments.

In March the increase in seasonal requirements also made itself felt on this market, and the general easing of the situation, which usually occurs when the calls on the market for the repayment of end of the month credits granted by the Reichsbank have been met, was not experienced. The end of March was very difficult. A few days previously the rates in connection with anticipatory arrangements were still as low as 4—6½ %: they rose rapidly to 7¾—9 % on the 31st, and remained for about a week in April at approximately 8—9 %. Apart from the factors already described the position was influenced by the circumstance that on March 31, the one-monthly balance sheets of the banks had to be compiled for the first time.

Again after the April settlement there was at first no relaxation owing to the need for liquidating the end of the month loans taken up at the Reichsbank and to the payments due in respect of numerous issues.

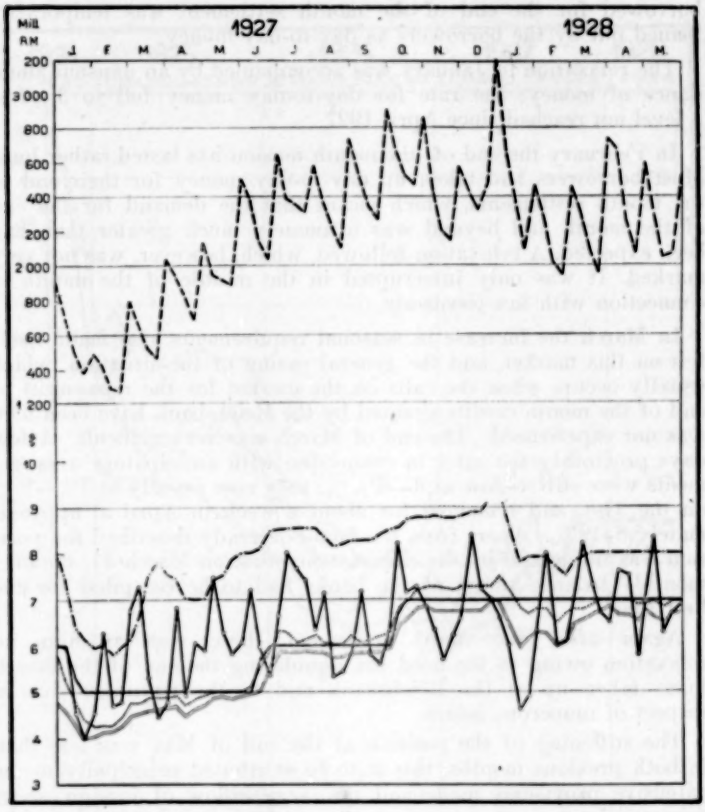
The stiffening of the position at the end of May was less than in both previous months; this is to be attributed principally to the extensive provisions made and the large inflow of foreign short term monies.

On the *private discount market* the Reichsbank and the Golddiskontbank were still the largest purchasers. A new feature was the issue of Treasury bills of the Reich by the Reichsbank when funds were more plentiful on the market. The rates for private discounts were lower than those for commercial bills, although since March, 1928, the margin between the two has been smaller. At the end of December, 1927, the private discount rate was 7 %, after having been for a long time fixed at 6¾ %. In January it fell for a few days to 5⅞ % ; in February the minimum was 6 % and since March it was 6½ %.

The rate for *trade bills with banker's endorsement* followed the general development of money market rates; after the raising of the Reichsbank discount rate it rose above 7 per cent and was 7¾ at the December end of the month settlement; it then remained permanently below the Reichsbank rate, except at the settlement days.

Diagram X.

Money rates in Berlin (weekly averages) and credits (bills and loans against collateral) of the Reichsbank.



Reichsbank discount,
Day-to-day money,
Money at one month,
Private discount,
Bills with a bankers' endorsement,
Bills and loans against collateral of the Reichsbank.

h. Credit situation of the banks.

As from March 31, 1928, new provisions apply to the balance sheets which have to be issued by German credit banks in virtue of § 4 paragraph 1 No. 5 of the Notification of July 4, 1910, regarding the admission of securities to dealings on the Bourse. The Notification provides that the shares of German credit banks may only be admitted to dealings on the Bourse provided that an undertaking is given regularly to publish returns in addition to the annual balance sheet.

Instead of the five two-monthly balance sheets previously required, ten interim balance sheets have now to be published in the year. The balance sheets are to be drawn up on the last working day of each month, excepting December and January (owing to the close of the accounts for the year and to prevent the interim balance sheet for the end of January from appearing before the balance sheet for the year), and published not later than during the last ten days of the following month. The form of the balance sheet is in several respects based on improved and more accurate lines. It is so drafted that the one model can be used by private credit banks, public banks, Girozentralen and mortgage banks, which previously used special forms.

Up to the present the number of the banks issuing returns has not been much increased. Private bankers in particular are not publishing balance sheets.

Special mention may be made of some of the principal alterations in the form of the balance sheets.

Contango and other loans against stock exchange securities, excluding those on current account, are subdivided in such a way as to enable the volume of forward business to be ascertained from the balance sheet.

The item "loans and advances on current account" (Debitoren in laufender Rechnung) is divided so as to show how much is uncovered and how much is covered by stock exchange securities or by other security.

The subdivision of "deposits" (Kreditoren) has been entirely changed. The former item "liabilities of the bank", under which only small sums were usually shown, has been omitted; and the former division into "deposits free of commission" and "other deposits" has been given up.

The previous Report referred to the special investigation instituted in April, and June, 1927, by the Reichsbank at the banks in regard to the volume of stock exchange credits and the position in respect of foreign debts. On the first point the interim balance sheets now contain more exact information; in regard to the second point the Reichsbank has come to an agreement which provides, in addition to the information given in the interim balance sheets, for communication of particulars of the respective proportions of home and foreign business in the case of each of the accounts in question for the end of each quarter of the calendar year. In this connection it was expressly stipulated that these special figures would not be published for each individual bank. Up to the present also no collective publication has taken place.

The table begun in the previous Report showing the development of the most important items in the interim balance sheets of the six principal Berlin banks is continued below; the figures are still confined to these banks, as the statistics of the other banks cannot be exactly compared owing to fluctuations in the number publishing interim balance sheets.

The column "loans and advances for which cover is provided" includes as from March 31, 1928, the items "loans and advances covered by stock exchange securities" and "loans and advances covered by other security" from the new form of interim balance sheet. Similarly the columns "deposits free of commission" and "other deposits" have been combined as from the same date.

Principal Berlin banks							
Date	Bills	Contangoes and loans against Stock Exchange securities	Advances on goods and consignments of goods	Loans and advances on current account for which cover is provided	Loans and advances on current account for which no cover is provided	Deposits free of commission	Other deposits
	(in millions of reichsmarks)						
December 31, 1913	1,775.9	760.2	509.5	2,208.0	740.6	2,254.3	2,118.7
January 1, 1924	37.2	17.2	74.4	249.0	268.6	276.5	628.0
December 31, 1924	860.3	41.7	260.7	785.2	692.4	1,328.0	1,172.5
June 30, 1925	1,095.2	68.8	343.5	1,186.6	1,065.5	1,549.2	1,619.9
December 31, 1925	1,249.0	121.6	443.5	1,462.1	838.8	2,126.8	1,458.6
June 30, 1926	1,397.4	312.1	350.7	1,619.4	793.6	2,411.9	1,544.4
December 31, 1926	1,555.6	718.0	457.3	2,113.8	734.9	2,942.6	1,993.2
June 30, 1927	1,372.9	587.1	553.8	2,542.7	976.5	3,034.3	2,358.3
August 31, 1927	1,429.1	592.0	544.7	2,639.1	1,012.0	3,159.3	2,404.8
October 31, 1927	1,508.7	530.8	619.0	2,783.4	1,108.5	3,244.6	2,496.7
December 31, 1927	1,857.5	530.5	775.6	2,768.0	1,027.6	3,496.0	2,599.2
February 29, 1928	2,022.3	536.2	814,7	2,890.1	1,194.2	3,581.8	2,664.8
March 31, 1928	2,066.4	533.7	827.2	2,947.0	1,192.5	6,169.9	
April 30, 1928	2,112.3	582.0	875.5	2,989.9	1,193.0	6,331.4	

The new balance sheets give a clear insight into the credit position of the banks. For this reason the following table—compiled from the first balance sheets published under the new regulations—is given, showing at the same time the relative position of private and public banks in the German banking system.

The majority of the items in this table speak for themselves. It need only be mentioned that in the case of credit balances with banks of issue and clearing banks a large proportion of the said credit balances is held by the former (viz. ℛ*M* 77.1, 97.2, 10.0 and 2.7 millions respectively). The holdings of Treasury bills of the Reich and the States total for all institutions together ℛ*M* 134 millions.

The advances on goods are distributed as follows in the case of the credit banks together (they are insignificant in the case of the State and provincial banks and the Girozentralen):

(In millions of reichsmarks)

Documentary credits		
Secured by bills of lading or ware-house vouchers	189.9	
With other security	297.3	
Without security	434.5	
Together		921.6
Other short-term credits secured by goods		184.1
Total advances on goods		1,105.8

Balance sheets of German credit banks as at March 31, 1928

	6 principal Berlin banks	83 Credit banks (including 6 principal Berlin banks)	22 State and provincial banks	17 Giro-zentralen
	(in millions of reichsmarks)			
Cash balances, foreign currency and coupons	103.3	138.5	9.7	7.9
Credit balances with banks of issue and clearing banks	90.9	120.8	11.3	5.1
Cheques, bills and Treasury bills	2,066.4	2,657.8	470.2	168.3
Credit balances with other banks	951 8	1,220.6	364.4	456.3
Contango loans and other loans against collateral	533.7	679.5	144.5	33.2
Contango loans only	317,9	382.3	19.5	13.5
Advances on goods	827.2	1,105.8	7.6	5.0
Loans and advances on current account together	4,139.5	5,908.0	1,487.5	793.8
Amounts of the same representing credits to banks	260.5	410 6	353.3	232.8
Amount of total covered by Stock Exchange securities	1,047.8	1,307.2	112.4	36.5
Amount of total covered by other securities	1,899.2	2,943.8	1,173.6	490.3
Amount of total uncovered	1,192.5	1,657.0	201.5	267.0
Share capital	527.0	943.0	93.3	148.9
Reserves	247.8	379.5	34 5	25.8
Deposits together	7,843.6	10,568.2	2,562.0	1,629.7
a) drawn on by customers in favour of third parties	698.8	976.7	8.8	4.0
b) banks, banking firms, etc.	974.9	1,359.0	777.4	1,099.3
c) other deposits	6,169.9	8,232.4	1,775.9	526.4
Of b + c the following amounts are payable:				
within 7 days	2,933.6	3,924.2	764.3	659.6
7 days to 3 months	3,859.9	4,944.9	1.236.9	726.6
after more than 3 months	351.4	722.3	552.0	239.4
Acceptances	388.6	561.6	11.8	0.1

The item "loans and advances on current account" shows for the first time the amount of the credits granted to other banks. Whereas the percentage of such loans averages 12.2 in the case of the credit institutions together, the percentage is as much as 23.7 in the case of the State and provincial banks and 29.5 for the Girozentralen. As regards the latter banks this is due to the functions which they exercise as the central institutions for the savings banks.

In addition to "deposits payable after more than three months," long-term borrowing now has to be shown as a separate item. Under this heading are shown the debenture loans of some of the principal banks—amounting to ℛ.ℳ 189 millions—to which reference was made in the previous Report.

In addition to the balance sheet not only has information to be supplied as before with regard to contingent liabilities in respect of collateral acceptances and guarantees, but liabilities arising out of reindorsements have also to be stated. Particularly the figures of the six principal Berlin banks are of importance. The collateral acceptances and guarantees of these banks totalled ℛ.ℳ 413.7 millions; their liabilities in respect of reindorsed bills amounted to ℛ.ℳ 1,123.3 millions, of which ℛ.ℳ 592.3 millions represented bank acceptances and ℛ.ℳ 531.0 millions represented other rediscounts. Of the total rediscounts ℛ.ℳ 336.9 millions were payable within 14 days at latest and were therefore reindorsed mainly for purposes of collection.

The normal interest rates of the Association of Berlin Banks and Bankers are generally fixed according to the Reichsbank discount rate. For this reason since the raising of the Reichsbank rate on October 4, 1927, the interest rates of the Berlin banks have remained the same as those given in the previous Report, with the single exception of the interest rate on money for half a month to one month, which was fixed after the raising of the Reichsbank discount rate at 6 % and was reduced by ¼ % during January, 1928.

i. Capital market.

Below is given the usual table of issues in Germany, in which some of the figures for 1927 have been corrected. For purposes of comparison the figures showing German loans taken up abroad during the same period (to which reference was made on page 30) are also included in the table.

After the issue of the Reich loan of ℛ.ℳ 500 millions in February, 1927, the power of absorption of the internal market for fixed interest-bearing securities was for a long time only small. The sale of mortgage bonds was effected only with difficulty, while the issue of public loans and industrial bonds practically ceased. Gradually, however, the position of the market showed some improvement and the quotations of fixed interest-bearing securities began to rise again. In addition a considerable volume of liquid funds became available at the end of the year as a result of interest payments and of amortisation and redemption of loans (including no less than ℛ.ℳ 138 millions of redeemed loans of the

	Issues in Germany			German loans abroad			
	Loans of Reich, States and Communes	Shares	Total loans and shares [1] (in round figures)	Public	Mixed [2]	Private	Total
	(in millions of reichsmarks)						
1st Quarter 1927	677.5	570	2 000	—	39	81	119
2nd » 1927	46.0	480	950	99	2	52	153
3rd » 1927	—	500	800	122	260	334	716
4th » 1927	—	450	700	151	255	181	587
1st » 1928	219.0	250	1 050	116	123	137	376

[1] Including private and mortgage bonds.
[2] Loans under this heading are contracted by public bodies but devoted to objects similar to those of private loans, and cannot therefore be included under either public or private loans.

Reich). These developments induced various mortgage banks to effect considerable new issues in December, 1927. These issues were almost all of the 8 % type, the re-introduction of which at the beginning of 1927 was enforced by circumstances.

In January and February several important borrowers (I. G. Farbenindustrie and Railway) appeared on the market and were followed in March by a large number of communes. The latter were to some extent forced by the temporal interruption of the inflow of foreign credits to apply to the internal market, largely in the form of a new type of treasury bond repayable at a high premium together with a relatively low rate of interest.

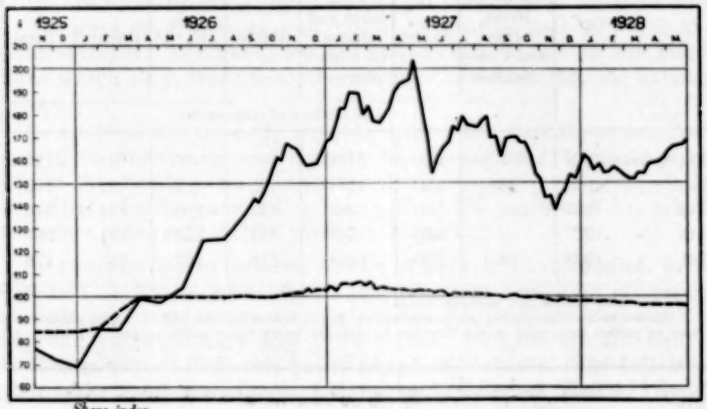
The fact that the majority of these loans were comparatively easily placed cannot only be ascribed to the development of the German capital market. It must here be repeated that part of the mortgage and other bonds—in some cases a considerable part—found their way abroad. In addition, as has already been pointed out, it was only possible to accommodate the new loans for the reason that their yield was very high as compared with interest rates abroad. The development of rates (diagram XI) and yield (diagram IX) of mortgage bonds shows that the formation of capital as compared with the demand is still inadequate.

Share issues remained at the same level at the beginning of the period under review. There was, however, an appreciable decline during the first quarter of 1928.

The development of share prices is illustrated in diagram IX, which shows that the practically uninterrupted fall since August, 1927, was arrested at the end of November. At the outset the recovery was largely due to purchases made for cover by those speculating on a fall, together with purchases made by the banks in preparation for their balance sheets at the end of the year, so that—despite the favourable situation on the money market—there was a new fall in January. There was a renewed rise in February, which was originally confined to special securities, mainly as

Diagram XI.

Weighted share index and rates quoted for an 8 per cent representative mortgage bond on the Berlin Bourse.



Share index,
Mortgage bond quotations.

a result of foreign purchases. By degrees the German public also began to participate. The rise became more pronounced owing to the fact that the distribution of dividends (which this year were generally higher than during the last few years) contributed largely to strengthen confidence in the profit-earning capacity of German joint stock companies. Confidence was further increased by the fact that in many cases there was a considerable internal formation of capital by reserving profits.

As regards the development of deposits with the savings banks, the monthly figures yield the following satisfactory picture. The abnormally high figures for the increase in January and February are probably largely the result of interest and revalorisation payments.

Savings deposits with the savings banks

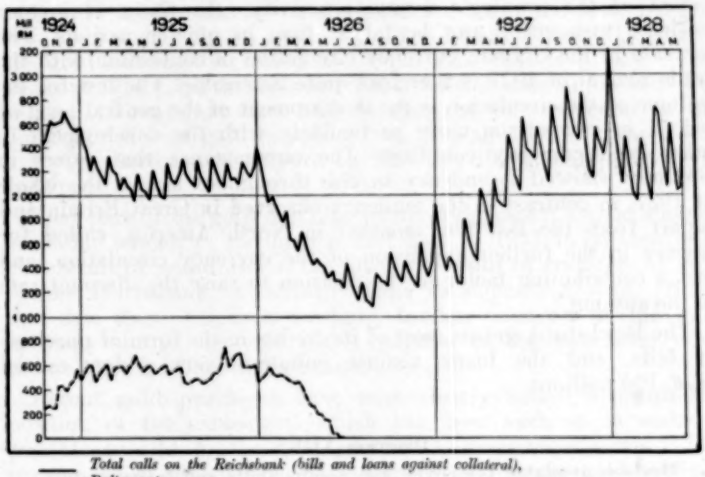
Month	Total savings deposits at the end of the month	Increase during the month
	(in millions of reichsmarks)	
August 1927	4,245.9	123.5
September 1927	4,340.3	94.4
October 1927	4,444.4	104.1
November 1927	4,543.1	98.7
December 1927	4,665.4	122.3
January 1928	5,094.1	428.7
February 1928	5,326.8	232.7
March 1928	5,486.8	160.0
April 1928	5,644.9	158.1

j. Discount and credit policy of the Reichsbank.

During the period under report the discount rate of the Reichsbank was raised from 6 to 7% on October 4, 1927, and the rate for loans against collateral, which had remained unchanged on both occasions when the discount rate was altered, was raised from 7 to 8%. Apart from these increases, which have already been mentioned in the Report for 1926/27, there have been no further changes in the Reichsbank rates.

Diagram XII.

Total calls on the Reichsbank (bills and loans against collateral).



——— *Total calls on the Reichsbank (bills and loans against collateral).*
– – – *Rediscounts.*

It can be seen from Diagram XII that—apart from the rise in December—the earlier increase in the Reichsbank holdings of bills and loans against collateral came to a standstill after the increase in the discount rate. The fluctuations are still considerable, especially at the end of each quarter; the calls on the Reichsbank amounted to *RM* 746 millions during the last week of December, and to as much as *RM* 778 millions at the end of March. On December 31, 1927, the holdings of bills and the loans against collateral amounted to *RM* 3,207 millions, and the total media of payment in circulation to *RM* 6,304 millions. Owing to the easier position during the next weeks, notably in January, the heavy calls at the end of March only resulted in an increase of credits to *RM* 2,737 millions with a total circulation of *RM* 6,185 millions. The circulation of Reichsbank notes amounted on these dates to *RM* 4,564 and 4,513 millions respectively. The share of the Reichsbank notes in the total circulation increased by a further *RM* 100 millions during the said three months as a result of the withdrawals of Rentenbank notes.

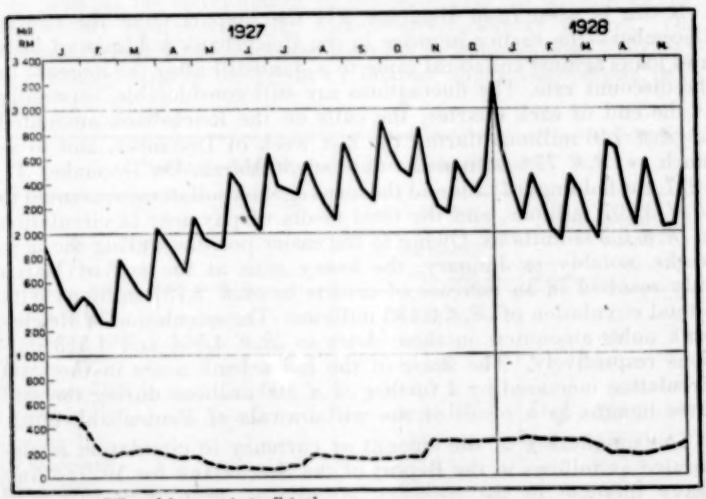
The significance of the amount of currency in circulation is elaborated as follows in the Report of the Reichsbank for 1927: "Any heavy increase in the currency circulation, even with full gold cover, is bound prejudicially to affect the development of prices;

and experience shows that any rise in prices, even if due to quite natural causes in connection with the supply of commodities or the conditions of production, is nevertheless regarded by wide circles of the population as a symptom of inflation. The cover percentage cannot, and should not, therefore be taken by the Reichsbank as the sole criterion of its policy. To do so would be to lead economic life along false paths. Price and wage increases would tend by a circuitous route to false calculations of profit-earning capacity and a mistaken policy in regard to expenditure on capital account and business management generally. The currency circulation of a country must be kept at all times in a proper proportion to the extent of the country's economic activity. In times of greater business turnover it can be larger than in quieter periods. The increase in the German currency circulation in connection with the trade revival of 1927 is therefore quite defensible. The test for the volume of the circulation is the development of the general level of prices, in comparison more particularly with the development in other gold currency countries. The circumstance that prices in Germany showed a tendency to rise throughout almost the whole of 1927, in contrast to the tendency observed in Great Britain and (apart from the last few months) in North America, called for reserve in the further expansion of the currency circulation, and was a contributing factor in the decision to raise the discount rate in the autumn."

The Reichsbank grants most of its credits in the form of purchase of bills, and the loans against collateral very seldom exceed *RM* 100 millions.

Diagram XIII.

Devisen available for cover and credits (bills and loans against collateral) of the Reichsbank.



——— *Bills and loans against collateral,*
– – – *Devisen available for cover.*

The loans against collateral outstanding at the end of the year were granted against:

	1926	1927
	(in millions of reichsmarks)	
Securities	41.5	36.3
Long-term Treasury bonds of the Reich	0.3	4.4
Bills	41.1	34.8
Commodities	1.1	2.8

k. Gold and Devisen policy of the Reichsbank.

During the first half of 1927 there was a very considerable reduction in the amount of the gold holdings; the lowest figure was reached on July 30, 1927, with ℛ*M* 1,801 millions. In August the gold holdings increased by 50 millions, that is to say, stood at about ℛ*M* 1,852 millions and this level was maintained until November. From that date and in spite of the reduction in the purchase price of gold introduced on October 18, 1927, there was a further increase, the figure on May 31, 1928, being ℛ*M* 2,041 millions.

That part of the gold holdings which is deposited abroad showed a similar tendency; during the first half of 1927 it fell not only as a result of withdrawals, but also as a result of transfers of gold by the Reichsbank to Germany from its deposits abroad. Since that date there has been a slight further increase in the gold holdings abroad, but the major portion of the purchases went to swell the holdings in Germany.

Recent gold purchases have been closely bound up with the position of the exchanges, which has been such as to make it possible to add to the gold reserve on favourable terms. The reasons which have led the Reichsbank to increase its gold holdings will be found on page 16 of the Annual Report for 1925/26.

No joint decision of the Reichsbank Directorate and the General Council, foreseen in § 52 of the Bank Law, has yet been taken in regard to the coming into force of the legal obligation of the Reichsbank, under § 31 of the Bank Law, to redeem its notes in gold or a corresponding foreign currency equivalent.

Owing to the development of the exchange rates, as shown in Diagram VIII, there was no question of a surrender of gold during the period under report. It will be recalled that the Report of the Reichsbank for 1926 contained a statement to the effect that, should the development of the exchange rates so require, the Reichsbank would certainly not hesitate to make gold available.

Small amounts of gold have continued to be sold to home industry.

The foreign exchange holdings of the Reichsbank, as shown in the weekly returns, remained during September and October, 1927, at approximately ℛ*M* 150 millions. They were doubled at the beginning of November by the proceeds of the third external loan of the Rentenbank-Kreditanstalt, and remained at about the same level until the beginning of March 1928. In March there was a fall so that the figures on March 7, and April 30, were ℛ*M* 297 and ℛ*M* 168 millions respectively. This reduction in the foreign

exchange holdings is counterbalanced by an increase of ℛ.ℳ 153 millions in the gold holdings during the same period. The foreign exchange holdings again increased in May; during the last week of this month the Reichsbank took up the foreign exchange proceeds from the fourth foreign loan of the Rentenbank-Kreditanstalt. Consequently, the figure shown in the return for May 31, was ℛ.ℳ 274 millions.

As stated in the Report of the Reichsbank for 1927, the total holdings of the Bank in foreign exchange at the end of 1927 amounted to ℛ.ℳ 472.1 millions; this amount was composed as follows:

	(in millions of reichsmarks)
Holdings in foreign currencies (281.1 millions of which were shown as legal cover for the note issue)	315.8
Foreign bank notes	0.9
Foreign bills and cheques	155.3

l. Authorisation of external loans.

In the previous Report it was mentioned that the Beratungsstelle or Advisory Office for Foreign Loans, to which all loans guaranteed or taken up by States or communes have to be subjected, had been investigating the credit requirements of the larger communes before resuming its activities on the basis of the new Regulations. The result of this investigation was made known on January 19, 1928, as follows: "The enquiry, which extended to the requirements of the municipalities to be met out of taxation revenue, the profits on municipal undertakings, the existing indebtedness and future loan requirements, has been answered by fifty-six cities. Three cities have given no reply on the ground that they were not in need of loans, and the three Hansa cities were not included in the enquiry. The short-term indebtedness, not including temporary working credits which are financed out of current income, appears from the replies sent by the towns in question as ℛ.ℳ 524.7 millions. The loans are almost exclusively denominated in reichsmarks. The replies also give an idea of what the cities consider necessary in the way of capital expenditure for new installations. The Advisory Office will institute preliminary investigations for the purpose of determining what amounts will have to be raised in foreign markets for this purpose."

On March 9, 1928, the members of the Advisory Office met to prepare for the resumption of its sittings which were henceforth to be held at regular intervals. The communication issued after this meeting stated that "the activities of the Office will in the first instance take the form of an enquiry with a view to ascertaining what proportion of the applications for leave to raise loans can be justified on the basis of the principles on which the Advisory Office acts. As soon as an examination of all the applications received has made it possible to arrive at a conclusion as to the total amount of loans which can be passed having regard to the objects for which they are required, the Advisory Office will be in a position to decide as to the total sum to be allowed with

due consideration of the economic position of the country and the protection of the currency. It will only then be possible to decide what amount may be allotted to individual communes."

Two months later the Advisory Office gave its consent once more to the taking up of external loans by the communes. It issued the following communication on May 8, 1928: "The Advisory Office at its yesterday's meeting approved the request of the Deutscher Sparkassen- und Giroverband to place approximately 17½ million dollars on the foreign market in the near future, in the form of a collective loan of German cities. The Advisory Office will see that all the towns concerned in the loan of the Girozentrale receive a proportionate share of the proceeds of the loan. The Advisory Office further approved the issue of loans of the cities of Berlin and Frankfort-on-Main in the near future. The Office reserves its decision with regard to the fixing of the final amount to be allotted to the individual cities of the loan of the Girozentrale and the fixing of the final amount to be allotted to Berlin and Frankfort. The issue of a second tranche of the loan of the Deutscher Sparkassen- und Giroverband together with other smaller separate loans of large German cities is proposed for the autumn."

In connection with the decisions of the Advisory Office, the Finance Minister of the Reich stated in a speech delivered in Baden on May 6, 1928: "The execution of the programme to be applied as from now onwards will only, it is true, cover the most urgent requirements of the communes; but with this it will be necessary to be satisfied for a long time to come. It will only be possible at a much later date and after careful examination of the position of the country as a whole to decide whether and when the acceptance of further foreign capital for communal purposes can in future be approved. After the completion of its present programme the Advisory Office will devote special attention to preventing its efforts and the effect of its guiding principles from being counteracted by specific action for the purpose such as the issue of short-term foreign loans. Foreign loans of the Reich and the States and foreign loans guaranteed by the Reich or the States still appear inadvisable. Reich and States should exercise the most scrupulous care to adhere to the principles established for the conduct of public bodies."

From the above it appears that a certain number of communal loans are gradually once again be issued abroad. That in the meantime a part of the communal loans issued in Germany must have found their way abroad has already been pointed out in the present Report. On May 10, 1928, a Decree of the Prussian Government was issued, containing a provision that communes and associations of communes when taking up bond loans in Germany must incorporate a clause on the bonds to the effect that no transfer of the claim may be effected without the assent of the commune.

Concluding remarks.

As will be apparent from the preceding pages, the period covered by the present interim Report was characterised by marked stability of conditions and a consequent absence of acute problems for the Reichsbank.

Business has in general remained at the satisfactory level reached in 1927, though latterly the symptoms of a certain hesitation have become more frequent.

A certain increase in the internal price level is unmistakeable. At the same time the export trade figures show an improvement, though the adverse trade balance remains a grave problem. Nevertheless the reichsmark has been able almost uniformly to maintain a very favourable position on the international market—a development which has been greatly assisted by the continued high level of German internal interest rates.

For the Reichsbank the period just past, taken as a whole, has meant further progress in the consolidation of the position. The expansion of the internal bill holdings of the Bank, which marked the year 1927, has come to a standstill, and has even begun to give place to a certain contraction, while at the same time the strong position of the German exchange enabled the Bank to add to its holdings of gold and foreign exchange in spite of extensive withdrawals, inter alia for reparation purposes.

G. W. J. BRUINS.

Annex A.

General Council of the Reichsbank

Dr. Hjalmar Schacht, President,	Dr. Louis Hagen,
Sir Charles Addis,	Franz von Mendelssohn.
Prof. Dr. G. Bachmann,	Hans Remshard,
Prof. Dr. G. W. J. Bruins,	Charles Sergent,
A. Callens,	Franz Urbig,
Carlo Feltrinelli,	Max M. Warburg,
Gates W. McGarrah,	Oscar Wassermann.

Commissioner of the Reichsbank

Prof. Dr. G. W. J. Bruins

Managing Board of the Reichsbank

Dr. Hjalmar Schacht, President,	O. Seiffert,
F. Dreyse, Vice President,	Dr. W. Vocke,
Dr. C. von Grimm,	Dr. C. Friedrich,
A. Budczies,	R. Fuchs,
Dr. B. Bernhard,	P. Schneider.

Annex B.

Means of payment in circulation[1]

(in millions of reichsmarks)

Date	Reichsbank notes in circulation	Notes of the Privatnotenbanken in circulation	Rentenbank notes in circulation	Divisional coins in circulation	Total circulation of means of payment
October 15, 1924..	1,396.7	—	1,790.4	352.3	3,539.4
August 31, 1925 ..	2,594.6	186.5	1,712.6	512.1	5,005.8
August 31, 1926 ..	3,225.1	186.6	1,260.0	666.3	5,320.0
August 31, 1927 ..	3,934.7	184.7	1,007.2	740.2	5,866.8
September 7, 1927 .	3,800.0	184.9	967.6	743.4	5,695.9
September 15, 1927	3,642.0[2]	183.9	951.0	741.1	5,518.0
September 23, 1927	3,547.6	182.9	939.6	741.8	5,411.9
September 30, 1927	4,182.4	188.3	988.9	762.7	6,122.3
October 7, 1927...	4,004.1	185.3	954.1	771.7	5,915.2
October 15, 1927..	3,792.6	183.7	934.3	773.1	5,683.8
October 22, 1927..	3,631.8	179.0	896.3	772.2	5,479.2
October 31, 1927..	4,230.6	188.1	896.3	788.7	6,103.6
November 7, 1927.	4,020.5	184.5	856.3	794.6	5,855.9
November 15, 1927	3,787.4	181.5	800.3	788.9	5,558.1
November 23, 1927	3,583.3	179.8	756.6	783.5	5,303.1
November 30, 1927	4,181.3	187.0	780.7	794.1	5,943.1
December 7, 1927.	4,043.7	186.0	749.9	808.1	5,787.7
December 15, 1927	3,931.4	185.1	724.7	810.8	5,652.1
December 23, 1927	4,046.4	188.1	709.9	822.7	5,767.0
December 31, 1927	4,564.0	188.7	716.2	835.3	6,304.2
January 7, 1928...	4,170.9	184.0	679.9	825.9	5,860.8
January 14, 1928..	3,927.9	182.3	645.1	816.5	5,571.7
January 23, 1928..	3,682.6	180.6	606.1	807.6	5,277.0
January 31, 1928..	4,251.2	183.8	625.7	823.8	5,884.5
February 7, 1928..	4,037.8	184.1	614.5	826.0	5,662.3
February 15, 1928.	3,784.4	180.7	605.7	820.5	5,391.4
February 23, 1928.	3,652.9	178.6	601.0	818.2	5,250.6
February 29, 1928.	4,268.2	185.4	630.4	841.3	5,925.4
March 7, 1928....	4,067.7	182.0	605.6	844.6	5,699.8
March 15, 1928...	3,885.8	180.6	604.0	844.5	5,514.9
March 23, 1928...	3,763.1	181.8	596.5	839.6	5,380.9
March 31, 1928...	4,513.2	185.8	616.0	869.5	6,184.5
April 5, 1928.....	4,411.0	185.4	604.5	877.8	6,078.8
April 14, 1928....	3,996.5	182.4	576.2	863.5	5,618.6
April 23, 1928....	3,760.1	179.3	557.6	854.3	5,351.3
April 30, 1928....	4,409.5	185.2	609.3	872.2	6,076.2
May 7, 1928	4,238.9	183.3	583.2	875.4	5,880.8
May 15, 1928	3,987.1	182.3	565.5	867.5	5,602.4
May 23, 1928	3,821.6	181.0	550.1	862.8	5,415.4
May 31, 1928	4,486.9	186.0[2]	586.2	881.0[2]	6,140.1[2]

[1] For the weekly figures from October 15, 1924 until August 31, 1927 vide Annex A of the interim Report 1927 and Annex B of the annual Report 1926/1927.
[2] Provisional figure.

Annex C.

Cover for Reichsbank notes[1]

(in thousands of reichsmarks)

Date	Cover according to § 28a			Cover according to § 28b	Total Cover
	Gold holdings	Devisen available for cover (deckungsfähige)	Total	Bills and cheques	
October 15, 1924 ..	613,625	204,541	818,166	2,153,943	2,972,109
August 31, 1925 ...	1,138,361	357,458	1,495,819	1,764,980	3,260,799
August 31, 1926 ...	1.492,818	497,606	1,990,424	1,251,509	3,241,933
August 31, 1927 ...	1.852,671	157,309	2,009,980	2,661,635	4,671,615
September 7, 1927..	1,852,614	157,206	2,009,820	2,498,471	4,508,291
September 15, 1927	1,852,400	151,790	2,004,190	2,290,410	4,294,600
September 23, 1927	1,852,246	153,006	2,005,252	2,235,681	4,240,933
September 30, 1927	1,852,097	153,805	2,005,902	2,745,689	4,751,591
October 7, 1927 ...	1,851,869	155,885	2,007,754	2,603,225	4,610,979
October 15, 1927 ..	1,851,627	161,716	2,013,343	2,432,152	4,445,495
October 22, 1927 ..	1,851,514	160,849	2,012,363	2,434,784	4,447,147
October 31, 1927 ..	1,851,309	161,446	2,012,755	2,802,380	4,815,135
November 7, 1927..	1,852,143	298,342	2,150,485	2,388,211	4,538,696
November 15, 1927.	1,854,498	287,122	2,141,620	2,167,617	4,309,237
November 23, 1927.	1,855,999	285,673	2,141,672	2,116,128	4,257,800
November 30, 1927.	1,856,990	282,440	2,139,430	2,482,821	4,622,251
December 7, 1927..	1,861,022	278,521	2,139,543	2,392,236	4,531,779
December 15, 1927.	1,860,731	286,239	2,146,970	2,270,456	4,417,426
December 23, 1927.	1,860,557	279,445	2,140,002	2,416,850	4,556,852
December 31, 1927.	1,864,643	281,986	2,146,629	3,128,656	5,275,285
January 7, 1928 ...	1,864,505	285,591	2,150,096	2,635,490	4,785,586
January 14, 1928 ..	1,864,043	286,091	2,150,134	2,330,881	4,481,015
January 23, 1928 ..	1,863,428	306,401	2,169,829	2,078,059	4,247,888
January 31, 1928 ..	1,865,284	296,005	2,161,289	2,372,850	4,534,139
February 7, 1928 ..	1,886,620	292,851	2,179,471	2,243,589	4,423,060
February 15, 1928..	1,886,389	292,822	2,179,211	1,963,868	4,143,079
February 23, 1928..	1,886,263	295,088	2,181,351	1,924,712	4,106,063
February 29, 1928..	1,888,350	281,953	2,170,303	2,336,275	4,506,578
March 7, 1928.....	1,888,253	297,344	2,185,597	2,260,942	4,446,539
March 15, 1928....	1,888,097	262,070	2,150,167	2,000,685	4,150,852
March 23, 1928....	1,908,944	226,768	2,135,712	1,927,587	4,063,299
March 31, 1928....	1,930,756	188,866	2,119,622	2,652,019	4,771,641
April 5, 1928.....	1,960,137	196,631	2,156,768	2,600,747	4,757,515
April 14, 1928.....	2,019,231	194,068	2,213,299	2,248,662	4,461,961
April 23, 1928.....	2,040,915	169,330	2,210,245	2,035,597	4,245,842
April 30, 1928.....	2,040,931	167,737	2,208,668	2,492,874	4,701,542
May 7, 1928	2,040,894	197,542	2,238,436	2,280,366	4,518,802
May 15, 1928	2,040,811	212,913	2,253,724	1,985,936	4,239,660
May 23, 1928	2,040,722	229,456	2,270,178	2,035,212	4,305,390
May 31, 1928	2,040,784	274,051	2,314,835	2,469,399	4,784,234

[1] For the weekly figures from October 15, 1924 until August 31, 1927 vide Annex B of the interim Report 1927 and Annex C of the annual Report 1926/1927.

Annex D.

Percentual cover for Reichsbank notes according to § 28a[1]

Date	Cover in gold and Devisen %	Cover only in gold %
Average of the period October 15, 1924 to December 31, 1924	55.1	41.3
Average of the year 1925	60.4	45.8
Average of the year 1926	67.0	52.7
August 31, 1927	51.1	47.1
September 7, 1927	52.9	48.8
September 15, 1927	55.0	50.9
September 23, 1927	56.5	52.2
September 30, 1927	48.0	44.3
October 7, 1927	50.1	46.2
October 15, 1927	53.1	48.8
October 22, 1927	55.4	51.0
October 31, 1927	47.6	43.8
November 7, 1927	53.5	46.1
November 15, 1927	56.5	49.0
November 23, 1927	59.8	51.8
November 30, 1927	51.2	44.4
December 7, 1927	52.9	46.0
December 15, 1927	54.6	47.3
December 23, 1927	52.9	46.0
December 31, 1927	47.0	40.9
January 7, 1928	51.5	44.7
January 14, 1928	54.7	47.5
January 23, 1928	58.9	50.6
January 31, 1928	50.8	43.9
February 7, 1928	54.0	46.7
February 15, 1928	57.6	49.8
February 23, 1928	59.7	51.6
February 29, 1928	50.8	44.2
March 7, 1928	53.7	46.4
March 15, 1928	55.3	48.6
March 23, 1928	56.8	50.7
March 31, 1928	47.0	42.8
April 5, 1928	48.9	44.4
April 14, 1928	55.4	50.5
April 23, 1928	58.8	54.3
April 30, 1928	50.1	46.3
May 7, 1928	52.8	48.1
May 15, 1928	56.5	51.2
May 23, 1928	59.4	53.4
May 31, 1928	51.6	45.5

[1] For the weekly figures from October 15, 1924 until August 31, 1927 vide Annex C of the interim Report 1927 and Annex D of the annual Report 1926/1927.

Annex E.

Index numbers of wholesale prices for Germany, England and the United States

(1926 = 100)

Month	Germany (Stat. Office of the Reich)	England (Board of Trade)	United States (Bureau of Labor Statistics)
1926			
January	101.0	102.0	104.0
February	99.9	100.3	102.0
March	99.0	97.4	100.0
April	98.7	96.8	100.0
May	98.4	97.5	101.0
June	98.1	99.1	101.0
July	99.0	100.5	100.0
August	99.7	101.1	99.0
September	100.4	101.8	100.0
October	101.3	102.6	99.0
November	102.0	102.8	98.4
December	102.0	98.5	97.9
1927			
January	101.1	96.8	96.6
February	100.9	96.2	95.9
March	100.4	94.8	94.5
April	100.3	94.3	93.7
May	102.0	95.1	93.7
June	102.6	95.6	93.8
July	102.4	95.1	94.1
August	102.6	95.0	95.2
September	103.9	95.8	96.5
October	104.0	95.3	97.0
November	104.2	95.1	96.7
December	103.9	94.7	96.8
1928			
January	103.2	95.1	96.3
February	102.6	94.6	96.4
March	103.1	94.9	96.0
April	103.8	96.4	—

Annex F.

Index numbers of German wholesale prices

(Statistical Office of the Reich)

(1913 = 100)

Month	General index	Agricultural products	Industrial raw materials and half-finished goods	Industrial finished goods
1927				
January	135.9	140.3	128.8	141.6
February	135.6	139.1	129.3	141.6
March	135.0	136.0	130.3	142.0
April	134.8	135.2	129.9	143.0
May	137.1	139.3	131.2	144.3
June	137.9	139.9	131.6	146.0
July	137.6	137.5	132.2	147.1
August	137.9	136.8	133.0	148.3
September	139.7	138.9	134.1	150.7
October	139.8	137.7	134.0	152.9
November	140.1	137.3	134.0	154.6
December	139.6	135.6	133.9	155.6
1928				
January	138.7	132.2	134.4	156.1
February	137.9	130.1	133.6	156.8
March	138.5	131.3	133.5	157.3
April	139.5	133.5	133.8	157.6

Annex G.

Germany's imports and exports

(Corrected figures)

Month	Imports	Exports	Deliveries in kind under the Experts' Plan	Total exports (column 3 and 4)	+ Surplus — Deficit	
					columns 2 and 3	columns 2 and 5
	in millions of reichsmarks					
1	2	3	4	5	6	7
1924						
January	618.9	520.9	—	—	— 98.0	—
February	775.8	556.3	—	—	— 219.5	—
March.....	738.9	547.5	—	—	— 191.4	—
April.....	855.0	572.9	—	—	— 282.1	—
May	935.8	606.4	—	—	— 329.4	—
June	776.7	566.2	—	—	— 210.5	—
July	586.9	665.5	—	—	+ 78.6	—
August	494.4	681.6	—	—	+ 187.2	—
September	670.9	654.1	—	—	— 16.8	—
October	874.0	717.0	—	—	— 157.0	—
November	1,059.9	736.7	—	—	— 323.2	—
December.....	1,219.9	835.0	—	—	— 384.9	—
1925						
January	1,209.8	706.4	—	—	— 503.4	—
February	1,014.3	639.7	—	—	— 374.6	—
March.....	970.7	719.0	—	—	— 251.7	—
April.....	929.8	680.8	—	—	— 249.0	—
May	934.1	739.7	—	—	— 194.4	—
June	945.2	697.0	—	—	— 248.2	—
July	1,081.2	754.9	—	—	— 326.3	—
August	1,112.5	736.5	—	—	— 376.0	—
September	994.7	789.4	—	—	— 205.3	—
October	1,014.6	858.1	—	—	— 156.5	—
November	809.2	802.9	—	—	— 6.3	—
December.....	727.9	806.0	—	—	+ 78.1	—
1926						
January	686.0	807.3	—	—	+ 121.3	—
February	642.1	794.6	—	—	+ 152.5	—
March.....	625.9	936.9	—	—	+ 311.0	—
April.....	710.2	791.0	—	—	+ 80.8	—
May	685.5	739.8	—	—	+ 54.3	—
June	770.0	769.8	—	—	— 0.2	—
July	899.8	832.7	—	—	— 67.1	—
August	897.2	843.0	—	—	— 54.2	—
September	806.2	845.0	—	—	+ 38.8	—
October	966.7	887.8	—	—	— 78.9	—
November	974.2	882.4	—	—	— 91.8	—
December.....	1,038.7	829.9	—	—	— 208,8	—

Month	Imports	Exports	Deliveries in kind under the Experts'Plan	Total exports (column 3 and 4)	+ Surplus columns 2 and 3	— Deficit columns 2 and 5
	in millions of reichsmarks					
1	2	3	4	5	6	7
1927						
January	1,060.4	805.9	29.9	835.8	— 254.5	— 224.6
February	1,059.4	761.6	44.6	806.2	— 297.8	— 253.2
March.....	1,052.5	848.1	60.4	908.5	— 204.4	— 144.0
April.....	1,063.4	797.8	36.2	834.0	— 265.6	— 229.4
May	1,138.1	847.5	47.1	894.6	— 290.6	— 243.5
June	1,161.4	759.4	38.3	797.7	— 402.0	— 363.7
July	1,239.0	859.7	45.0	904.7	— 379.3	— 334.3
August	1,126.0	881 5	50.7	932.2	— 244,5	— 193.8
September	1,139.7	946.9	56.0	1,002.9	— 192.8	— 136.8
October	1,207.5	975.3	59.4	1,034.7	— 232.2	— 172.8
November	1,252.1	927.3	57.9	985.2	— 324.8	— 266.9
December	1,219.6	967.3	50.2	1,017.5	— 252.3	— 202.1
1928						
January	1,328.9	875.0	53.4	928.4	— 453.9	— 400.5
February	1,212.6	956.4	52.2	1,008.6	— 256.2	— 204.0
March	1,193.1	1,037.3	57.4	1,094.7	— 155.8	— 98.4
April	1,139.5	937.6	55.8	993.4	— 201.9	— 146.1

Annex H.

Imports of raw materials and half-finished goods and exports of finished goods

Month	Imports of raw materials and half-finished goods	Exports of finished goods	Excess of exports over imports of finished goods
	in millions of reichsmarks		
1926			
January	378	568	468
February	333	564	467
March	332	686	600
April	353	597	507
May	324	548	460
June	387	551	449
July	412	582	478
August	421	572	469
September	438	582	467
October	485	603	447
November	505	578	437
December	557	565	424
1927			
January	565	563	412
February	579	541	376
March	588	600	429
April	555	597	407
May	593	622	412
June	602	559	350
July	603	634	411
August	590	629	408
September	568	693	463
October	595	718	465
November	649	683	450
December	662	710	497
1928			
January	663	632	401
February	696	690	467
March	642	761	521
April	610	682	467

Annex I.

Sterling and dollar rates on the Berlin Bourse

(Weekly averages in absolute figures and in percentages of parity)

	£		$	
1926		%		%
August 15	20.415	99.93	4.200	100.05
August 23	20.412	99.91	4.200	100.05
August 31	20.373	99.72	4.198	100.00
September 7	20.390	99.81	4.199	100.03
September 15	20.386	99.79	4.198	100.00
September 23	20.387	99.79	4.197	99.98
September 30	20.371	99.71	4.198	100.00
October 7	20.367	99.69	4.198	100.00
October 15	20.381	99.76	4.202	100.10
October 23	20.377	99.74	4.205	100.17
October 30	20.376	99.74	4.210	100.29
November 7	20.385	99.78	4.207	100.22
November 15	20.420	99.95	4.211	100.31
November 23	20.429	100.00	4.212	100.34
November 30	20.419	99.95	4.210	100.29
December 7	20.394	99.83	4.205	100.17
December 15	20.388	99.80	4.203	100.12
December 23	20.377	99.74	4.199	100.03
December 31	20.375	99.73	4.198	100.00
1927				
January 7	20.427	99.99	4.209	100.26
January 15	20.448	100.09	4.214	100.38
January 23	20.468	100.19	4.217	100.45
January 31	20.469	100.19	4.219	100.50
February 7	20.463	100.16	4.219	100.50
February 15	20.466	100.18	4.219	100.50
February 23	20.463	100.16	4.219	100.50
February 28	20.463	100.16	4.218	100.48
March 7	20.469	100.19	4.218	100.48
March 15	20.460	100.15	4.217	100.45
March 23	20.462	100.16	4.214	100.38
March 31	20.476	100.23	4.216	100.43
April 7	20.486	100.28	4.218	100.48
April 15	20.489	100.29	4.219	100.50
April 23	20.488	100.29	4.218	100.48
April 30	20.490	100.30	4.218	100.48
May 7	20.500	100.35	4.219	100.50
May 15	20.500	100.35	4.220	100.53
May 23	20.499	100.30	4.220	100.53
May 31	20.499	100.34	4.220	100.53
June 7	20.495	100.32	4.220	100.53
June 15	20.497	100.33	4.220	100.53
June 23	20.489	100.29	4.219	100.50
June 30	20.493	100.31	4.219	100.50
July 7	20.489	100.29	4.219	100.50
July 15	20.461	100.15	4.214	100.38
July 23	20.424	99.97	4.207	100.22
July 31	20.413	99.92	4.205	100.17
August 6	20.418	99.94	4.203	100.12
August 15	20.447	100.09	4.206	100.19

	£		$	
		%		%
August 23	20.433	100.02	4.202	100.10
August 31	20.429	100.00	4.201	100.07
September 7	20.434	100.02	4.204	100.14
September 15	20.439	100.05	4.203	100.12
September 23	20.427	99.99	4.199	100.03
September 30	20.432	100.01	4.198	100.00
October 7	20.421	99.96	4.195	99.93
October 15	20.414	99 92	4.191	99.84
October 23	20.393	99.82	4.186	99.72
October 31	20.398	99.85	4.188	99.76
November 7	20.398	99.85	4.189	99.79
November 15	20.430	100.00	4.193	99.89
November 23	20.424	99.97	4.188	99.76
November 30	20.425	99.98	4.186	99.72
December 7	20.425	99.98	4.185	99.69
December 15	20.443	100.07	4.188	99.76
December 23	20.428	99.99	4.184	99.67
December 31	20.444	100.07	4.185	99.69
1928				
January 7	20.459	100 15	4.194	99.91
January 15	20.475	100.23	4.199	100.03
January 23	20.461	100.16	4.197	99.98
January 31	20.448	100.09	4.195	99.93
February 7	20.423	99.97	4.193	99.89
February 15	20.437	100.03	4.193	99.89
February 23	20.430	100.00	4.190	99.81
February 28	20.430	100.00	4.187	99.74
March 7	20.417	99.94	4.185	99.69
March 15	20.411	99.91	4.183	99.64
March 23	20.408	99.90	4.181	99.60
March 31	20.413	99.92	4.182	99.62
April 7	20.411	99.91	4.181	99.60
April 15	20.413	99.92	4.181	99.60
April 23	20.417	99.94	4.182	99.62
April 30	20.404	99.87	4.181	99.60
May 7	20.401	99.86	4.181	99.60
May 15	20 401	99.86	4.180	99.57
May 23	20.396	99.84	4.178	99.52
May 31	20.393	99.82	4.176	99.48

Annex J.

Money rates in Berlin

(Monthly averages)

Month	Reichsbank discount %	Day-to-day money %	Money at one month %	Private discount %	Bills with a bankers' endorsement %	Yield of 8% mortgage bonds %
1924						
October	10.00	15.85	16.20	—	—	—
November ...	10.00	14.78	15.00	—	—	—
December ...	10.00	11.53	13.32	9.19	—	—
1925						
January	10.00	10.00	11.30	8.31	—	—
February	9.88	10.70	11.93	8.00	—	—
March	9.00	9.00	11.30	8.00	—	—
April	9.00	8.48	10.28	8.00	—	—
May	9.00	8.83	10.50	7.98	8.96	—
June.....	9.00	8.76	10.64	7.75	8.98	—
July	9.00	9.40	10.85	7.87	9.07	—
August.....	9.00	9.30	10.95	7.68	9.00	—
September...	9.00	8.94	10.73	7.18	8.83	—
October	9.00	9.61	10.72	7.09	8.92	—
November ...	9.00	8.70	10.73	6.77	8.70	—
December ...	9.00	8.40	10.37	6.75	8.60	9.90
1926						
January	8.32	7.29	9.28	6.27	7.76	9.52
February	8.00	6.10	7.44	5.46	7.03	8.88
March	7.85	5.61	6.77	5.00	6.56	8.47
April	7.00	4.93	6.13	4.86	5.80	8.13
May	7.00	5.15	6.00	4.69	5.40	8.16
June.....	6.60	4.83	5.87	4.52	5.16	8.15
July	6.08	5.09	6.02	4.53	5.17	8.12
August.....	6.00	5.11	5.91	4.61	5.18	8.08
September...	6.00	5.12	6.36	4.88	5.42	8.06
October	6.00	5.04	6.30	4.84	5.30	8.05
November ...	6.00	4.85	6.47	4.63	5.08	8.01
December ...	6.00	6.02	7.46	4.72	5.35	7.89
1927						
January	5.28	4.60	6.42	4.20	4.62	7.76
February	5.00	5.33	5.95	4.22	4.35	7.74
March	5.00	5.29	7.40	4.59	4.86	7.80
April	5.00	5.83	7.13	4.62	4.86	7.79
May	5.00	6.35	7.69	4.90	4.99	7.84
June.....	5.75	6.03	8.28	5.39	5.76	7.93
July	6.00	7.36	8.50	5.90	6.18	7.93
August.....	6.00	5.78	8.22	5.82	6.09	7.99
September...	6.00	6.09	8.35	5.90	6.19	7.98
October	6.92	7.31	8.69	6.69	7.09	8.03
November ...	7.00	6.12	8.77	6.76	7.25	8.18
December ...	7.00	7.23	9.07	6.87	7.34	8.18
1928						
January	7.00	5.35	8.06	6.27	6.88	8.15
February	7.00	6.61	7.72	6.20	6.67	8.16
March	7.00	7.08	7.98	6.72	6.93	8.20
April	7.00	6.89	8.00	6.70	6.92	8.21
May	7.00	6.98	8.00	6.66	6.94	—

Annex K.

Money rates in Berlin (weekly averages) and credits (bills and loans against collateral) of the Reichsbank[1]

Date.	Reichsbank discount %	Day-to-day money %	Money at one month %	Private discount %	Bills with a bankers' endorsement %	Bills and loans against collateral of the Reichsbank[2]
1927						
August 31	6.00	5.79	8.25	5.88	6.23	2,729
September 7	6.00	7.17	8.25	5.88	6.08	2,525
September 15	6.00	5.80	8.25	5.88	6.13	2,354
September 23	6.00	5.59	8.39	5.88	6.23	2,272
September 30	6.00	6.29	8.50	5.98	6.25	2,900
October 7	6.67	8.21	8.54	6.42	6.80	2,667
October 15	7.00	7.16	8.71	6.59	6.99	2,527
October 23	7.00	7.25	8.75	6.85	7.21	2,467
October 31	7.00	6.84	8.75	6.88	7.27	2,848
November 7	7.00	6.33	8.79	6.77	7.28	2,420
November 15	7.00	5.71	8.75	6.75	7.25	2,210
November 23	7.00	6.21	8.75	6.75	7.21	2,143
November 30	7.00	6.58	8.79	6.75	7.25	2,569
December 7	7.00	8.43	8.88	6.75	7.25	2,434
December 15	7.00	7.20	8.95	6.75	7.25	2,329
December 23	7.00	6.98	9.16	6.98	7.34	2,461
December 31	7.00	6.60	9.28	7.00	7.50	3,207
1928						
January 7	7.00	6.04	8.63	6.54	7.17	2,658
January 15	7.00	4.56	7.83	6.03	6.79	2,364
January 23	7.00	4.93	7.93	6.18	6.71	2,101
January 31	7.00	6.29	7.89	6.32	6.85	2,464
February 7	7.00	8.00	7.88	6.33	6.81	2,267
February 15	7.00	5.98	7.66	6.02	6.53	2,022
February 23	7.00	6.11	7.54	6.07	6.68	1,948
February 28	7.00	7.00	7.83	6.48	6.75	2,453
March 7	7.00	8.21	7.89	6.60	6.83	2,312
March 15	7.00	7.25	8.00	6 66	6.93	2,092
March 23	7.00	6.71	8 00	6.75	6.96	1,959
March 31	7.00	6.54	8.00	6.86	7.00	2,737
April 7	7.00	7.63	8.00	6.69	6.99	2,676
April 15	7.00	7.45	8.00	6.65	6.95	2,289
April 23	7.00	5.79	8 00	6.60	6.88	2,072
April 30	7.00	6.96	8.00	6.83	6.92	2,596
May 7	7.00	8.33	8.00	6.63.	6.99	2,320
May 15	7.00	6.29	8.00	6.55	6.88	2,046
May 23	7.00	6.71	8.00	6.73	6.96	2,063
May 31	7.00	6.90	8.00	6.75	7.00	2,512

[1] For the previous figures vide Annex K of the annual Report 1926/1927.
[2] In millions of reichsmarks.

Annex L.

Weighted share index and quotations of an 8% representative mortgage bond on the Berlin Bourse[1]

Date	Weighted average prices of shares	Quotations of an 8% representative mortgage bond	Date	Weighted average prices of shares	Quotations of an 8% representative mortgage bond
1927			1928		
August 31.....	170.8	100.90	January 4.....	162.9	98.50
September 7....	162.5	100.00	January 11.....	160.5	98.50
September 14...	169.9	100.00	January 18.....	156.7	98.50
September 21...	170.1	101.00	January 25.....	158.9	98.25
September 28...	170.2	100.75	February 1.....	155.0	98 50
October 5.....	168.4	99.90	February 8.....	155.3	98.00
October 12.....	168.0	99.90	February 15....	157.3	98.00
October 19.....	162.8	100.00	February 22....	156.1	97.70
October 26.....	154.3	99.75	February 29....	154.0	97.60
November 2....	151.9	99,50	March 7.....	152.8	97.60
November 9....	144.2	99.50	March 14.....	152.2	97.50
November 16...	144.6	99.00	March 21.....	154.4	97.00
November 23...	138.7	99.00	March 28.....	154.1	96.75
November 30...	144.5	99.00	April 3.....	158.8	97.00
December 7....	147.3	99.00	April 11.....	159.4	97.00
December 14...	153.8	98.50	April 18.....	159.6	97.00
December 21...	152.8	98.50	April 25.....	160.6	97.00
December 28...	156.9	98.50	May 2.....	164.5	97.00
			May 9.....	166.9	97.00
			May 16.....	167.2	97.00
			May 23.....	167.8	96.90
			May 30.....	169.5	96.75

[1] For the figures from October 1925 until August 1927 vide Annex L of the Report 1926/1927.

REPORT No 7

OF THE

COMMISSIONER

FOR THE

GERMAN RAILWAYS

June 1, 1928

BERLIN

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Report No. 7
of the Commissioner for the German Railways to the Reparation Commission.

Berlin, June 1, 1928.

The third business year of the German Railway Company terminated on December 31, 1927. The definitive accounts for the year have just been drawn up by the Board and published in conformity with § 30 of the Law concerning the German Railway Company. The present report is intended to analyse the operating results as revealed in the accounts, to discuss such points as may be raised thereby and to forecast the prospects for the year 1928.

I shall first of all give a short summary of the Company's financial position, briefly recalling its development from the foundation of the Company up to the beginning of 1928. Following the usual order, I shall next give an account of the manner in which reparation payments were made and shall then analyse and to some extent elucidate the financial results of the Company's working. Subsequently I shall discuss the position of the staff and the development of traffic and rates, which is of such vital interest to the German economy. I shall conclude with some information on the principal work in hand or contemplated, as well as on the position with regard to rolling stock.

* * *

General Review.

Operating receipts.

Before examining the results of the Company's operations in 1927 and the prospects for 1928, it is interesting to recall briefly how the undertaking developed in the preceding years since its creation in October 1924.

The year 1925, which opened after a long period of serious difficulties due to post-war conditions and the inflation, was characterised by a general economic recovery in Germany. Railway traffic naturally profited by this recovery and increased during the year in a very satisfactory manner both as regards passenger and goods transports. The receipts of the Reichsbahn for the calendar year (January 1 to December 31) totalled 4,669 millions, being nearly 50 per cent higher than the receipts in 1913 which totalled

3,057 millions for the railway system within the present frontiers of the Reich. In this connection I may recall that in drawing up the Dawes Plan the Railway Experts estimated receipts in 1924 at only 4,200 millions, as being the most that could be expected.

At the end of 1925 a serious economic crisis arose. During the first four months of 1926 this crisis reduced the receipts of the Company by more than 11 per cent. Towards the middle of the year there were signs of an improvement, which was stimulated to a marked degree by the considerable volume of coal transports as a result of the British coal stoppage, which temporarily opened up quite exceptional markets to the mining industry and also to German industry as a whole. Goods traffic steadily recovered. On the other hand passenger traffic remained poor. Altogether receipts in 1926 totalled 4,541 millions, being a decrease of 3 per cent as compared with 1925; the decrease was confined almost entirely to receipts from passenger traffic.

Economic recovery continued throughout the year 1927 and was visible in almost all branches of production. The recovery was upheld by very large demands on the part of the home market whereas the export trade remained fairly poor. During the year railway traffic developed very satisfactorily and at a pace which apparently accelerated from May onwards.

Receipts in 1927 totalled 5,039 millions, being an increase of 11 per cent as compared with 1926 and of 8 per cent as compared with 1925 which, as I have already pointed out, was a very satisfactory year.

Nevertheless passenger receipts, which amounted to 1.379 millions, showed an increase of only 4 per cent over 1926 and even fell short of the 1925 receipts, which totalled 1,430 millions.

Receipts from goods traffic on the other hand made great strides and yielded an increase of 14 per cent as compared with 1926 and of 12.5 per cent as compared with 1925. When it is realised that during the 10 years preceding the war the receipts from the normal gauge German railways taken as a whole increased on an average by 5.13 per cent per annum, the satisfactory nature of the increase achieved in 1927 will be appreciated, and all the more so in view of the fact that in some respects the position of Germany at the present day is less favourable than before the war. In particular I would recall that the annual increase of the population has been reduced by about one half and that the extension of the railway system—to which about 800 kilometers per annum used to be added—has practically ceased today as new railway lines are now only constructed on a very reduced scale.

Following the period of prosperity, which was a feature of the years 1925 and 1927 and was interrupted during the first 6 months of 1926, certain indications seem to suggest that the economic conjuncture has reached its climax, as I shall explain below. Notwithstanding, the first months of 1928 yielded satisfactory receipts to the Company in excess of those in the corresponding months of

1927; but the excess is getting smaller each month. In April the goods receipts fell below those of last year; and in May the number of cars loaded also shows a falling off.

Operating expenditure.

The following table furnishes a comparison of operating receipts and expenditure in the first three business years of the Company and in the business year 1913. The table also shows the operating surpluses or net profits in each year, together with the operating coefficient, i. e., the ratio of expenditure to receipts.

Year	1927	1926	1925	1913
Operating receipts ...	5,039.3	4,540.8	4,669.0	3,057.7
Operating expenditure	4,158.8	3,680.6	3,974.8	2,205.2
Operating surplus....	880.5	860.2	694.2	852.5
Operating coefficient..	82.53 per cent	81.06 per cent	85.13 per cent	72.12 per cent

Faced with this decline of traffic and receipts in 1926, the Company was compelled to cut down its expenditure; the reductions were confined entirely to expenditure on consumption, on the cost of upkeep and renewal of the permanent plant and on rolling stock, while expenditure on personnel remained unchanged despite a certain reduction of staff.

In 1927, encouraged by the unusual development of traffic and receipts, expenditure rose considerably and showed an increase of 478 millions over 1926 and of 184 millions over 1925. As will be seen subsequently, the increase extended to all categories of expenditure, both to expenditure on consumption which naturally increases parallel with traffic and to the expenditure on maintenance and renewal, which the Company felt called upon to increase on a large scale in order to make up for the restrictions imposed in 1926 and to overtake some of the arrears in the work of maintenance dating from the many years of the war and post war period.

The net operating profit during the years 1925, 1926 and 1927 amounted to:

694.2 860.2 880.5
million marks.

The operating coefficient, that is to say the percentage of expenditure as compared with receipts was:

85.13 per cent 81.06 per cent 82.53 per cent.

In conformity with the terms of the Law concerning the German Railway Company and the Company's Statutes, the net operating profit was utilised in the first place to ensure the service of the

reparation bonds, and then for the service of debts or new loans of an insignificant amount, viz: 2 millions in 1927. The balance was devoted to the creation of reserves, to writing off and to the payment of dividend on the preference shares. A comparison of the operating surpluses previously referred to with the reparation payments, which totalled 332.7 millions, 574.3 millions and 590.5 millions respectively for the years 1925, 1926 and 1927, clearly shows that there were ample funds available for meeting the aforesaid reparation liabilities.

It should be noted that these reparation charges compared with the receipts of the Reichsbahn represent a variable percentage of 7 to 12 per cent, which is considerably less than the percentages arrived at from a comparison of the capital charges and receipts of most of the important foreign railways — American, British, French, Swiss etc.

When examining the results achieved by the Company during the first three financial years, it is interesting to recall the forecasts made by the railway experts who collaborated in drawing up the Dawes Plan. They estimated that in future years the German railway system might be expected to yield a net income of approximately 800 million marks, not including the proceeds of the transport tax. As a matter of fact they did not believe that this figure would be reached at the outset, but they expected it to be attained very rapidly, probably within an interval of three years.

This estimate was based more particularly on the very satisfactory results yielded by the German railways before the war, which had an operating coefficient of 72 per cent in 1913. Taking into account the less favourable post-war conditions, the experts did not believe that the same operating results could be obtained, but they thought that a coefficient of 80 per cent would be reached fairly soon as was the case abroad. With such a coefficient and with receipts estimated at a minimum of 4 milliards they arrived at the figure 800 millions as the operating surplus. "In our judgment," wrote the Experts, "it can be obtained ..... on condition that the tariffs are fixed at a reasonable level, that the number of employees is reduced to a reasonable figure, and that in all other matters curtailment of expenses is secured by economical operation on business lines." Actually, as has been seen, the operating coefficient still works out at 81 or 82 per cent, but the remarkable growth of receipts has largely helped to furnish the operating surplus expected.

As regards the transport tax, the amount payable in respect of reparations was fixed for the second year at 250 millions and for the third year at 290 millions. Actually the tax has yielded 271 and 300 millions respectively.

The outcome of the figures which I have here repeated is that the Experts' forecasts have been amply justified by the experiences of the past three years, and that the contribution which the Railway Company is expected to make towards reparation payments is entirely in proportion to its financial capacity.

Financial position in 1928.

The financial prospects of the Company are much less favourable for 1928 than in previous years owing to the considerable new expenditure which has been imposed upon it and which to a great extent represents payments to staff.

In my previous report I already referred to the Government's Bill for a general increase of salaries and pensions of officials of the Reich. The Bill was passed by the Reichstag and came into force in December last. The Company accordingly raised the salaries of its own officials on similar lines.

As was to be expected, the increase of salaries was followed by demands for similar increases on the part of workmen engaged on the railway and in other industries—demands which have been met, in part at any rate. In view of the importance of this question I am devoting a special chapter of the report to the position of the staff and to the changes introduced therein. It will be seen that the increase of salaries, wages, pensions and various allowances granted in 1927, the full effect of which will be felt in the business year 1928, will involve an increase of expenditure of *RM.* 436 millions per annum, even allowing for the slight reductions proposed in the personnel. It should be noted in particular that the charges borne by the Company for pensions paid on retirement, the pensions of widows and orphans and the salaries of officials on retaining pay, which amounted in 1913 to 114 millions, are estimated for 1928 at 500 millions. The pensioners of the Company have increased in number by 95 per cent since 1913 and now number 242073, not including the workmen, who are registered with the workmen's pension fund offices.

Since 1924 expenditure of all kinds for personnel has increased by 758 millions, although the numbers of the staff have been cut down since that date by 30,000. During the same period the receipts of the Company have risen from 4,200 millions, the 1924 estimate, to more than 5 milliards in 1927, an increase of 800 millions or 19 per cent in 3 years. This excellent increase in receipts, which is due to the development of traffic to an unhoped for extent, has been almost entirely absorbed by the heavier charges for personnel.

It was absolutely fair that the personnel, which no doubt was insufficiently paid in 1924, should benefit largely by the development of receipts, always provided that the financial equilibrium of the Company was not endangered by imprudent measures.

To these new charges must be added an increase of 110 millions in reparation payments, which rise from 550 millions in the third annuity year to 660 millions—the final standard amount payable as from the fourth annuity year. Taking other additional expenditure into account, more especially that on preference dividends, the service of loans, etc., the total annual expenditure of the Reichsbahn has increased by 651 millions within the past year

Proposal to increase rates.

As I have already pointed out, it is not likely that the Company's receipts in 1928 will yield any considerable surplus as compared with 1927. On the other hand, it is obvious that the Company will not be able to meet the enormous increase in its charges by economies in operating expenditure, since more than 60 per cent of this expenditure represents payments to staff, which, in practice, are irreducible.

The Company has therefore been obliged to consider resort to an increase of rates in order to cover at least a fraction of the new expenditure, and to this end it proposes an increase of passenger and goods tariffs which should yield an additional income of 250 million marks. This would represent a 5 per cent increase on the total receipts, i. e. an average increase of 5 per cent on the aggregate rates.

In this connection it should be noted that since its foundation the Company by a series of measures has considerably reduced the level for goods rates to an extent which, so far as receipts are concerned, has more than counterbalanced the increase in passenger fares introduced in 1925.

Ever since the end of last year, as I pointed out in my last Report dated December 1927, an increase of rates has seemed inevitable. The Company had already acquainted the Government with the difficulties of the position.

At its meeting in January 1928 the Board formally acknowledged the impossibility of maintaining the prevailing tariffs in 1928, and stated that they would have to be raised on June 1. Nevertheless it was willing to postpone the official application for an increase provided that the Minister of Transport would give orders for the immediate examination of the Company's proposals by his departments, and provided that he would agree to shorten the regulation interval of 2 months which would otherwise necessitate publication of the decision to increase rates on April 1 so that the said increase could come into force on June 1.

At its meeting in March the Board reaffirmed its previous resolution and decided to make formal application to the Minister of Transport for an increase of rates. The application together with a memorandum justifying the same was submitted on May 1 1928.

A detailed examination of the measures proposed by the Company will be found in the section of my report devoted to tariffs and traffic. I would only point out briefly at this point that the scheme is calculated to provide 250 millions of additional income, of which 55 millions are to be raised by an increase of passenger fares and 195 millions by an increase of freight rates. The increase of passenger fares will be effected, either while retaining the present system of classification, or by revising the system and reducing the number of classes from four to two plus a luxury class. The increase of

freight rates would not affect the so-called competitive tariffs and would be accompanied by reductions on certain transports (viz. coal, straw and hay, iron exports).

It is to be expected that the Government, to whom the proposal has been thus officially submitted, will make known its final decision very shortly. The three business years which have just passed have proved that the Company is in a position to meet the payments imposed upon it by the Experts' Plan. Its budget is today disturbed by new charges of an entirely different origin, arising directly or indirectly as a consequence of decisions taken by the Government of the Reich. The Management and the Board, which are responsible for the good administration of the Reichsbahn, have found no other solution of the difficulty, of which the consequences may be very serious, but an increase in rates, and they have proposed this solution after having carefully weighed its advantages and disadvantages. It is now for the Government to act on its own responsibility in conformity with the powers devolving upon it under the Railway Law.

The proposal to increase tariffs has given rise to numerous criticisms as is only natural. Never on any occasion, I should say, either in Germany or abroad have tariff increases, which affect many interests, been favourably received by public opinion.

It has been argued that the proposed increase would seriously endanger the economic life of the country, and that it is particularly inopportune at the present time when the conjuncture appears to be on the decline and gives rise to fears of a period of depression following—as is ordinarily the case—a period of prosperity. Is it possible that an increase representing in the aggregate only 5 per cent of the total cost of transport could have such an effect; would it not rather be much more injurious now to postpone the increase of tariffs and then be obliged to introduce it during a genuine crisis? The same objections were made a year ago against the increase of postal rates which were raised 50 or 60 per cent; yet this increase appears to have had no influence whatever on economic development.

On the other hand, without seriously contesting the necessity for providing the Company with fresh funds to cover expenditure, certain quarters have suggested a loan or a short term credit. But to cover normal and recurrent operating expenditure by means of loans would only mean the reopening of the period of deficits which was happily terminated in 1924. No policy could be worse either for the Reichsbahn or for the budget of the Reich, which has guaranted the payment of reparations and even the dividend on the preference shares already issued. The proceeds of such loans as the Company may obtain must be reserved to finance the capital expenditure to which I have already referred, but this question is entirely distinct from that of the equilibrium of the operating budget.

It is clear that an increase of railway rates, like an increase of taxes or postal charges or any other increase in the prices of essential products, is an all-round disadvantage. But when the expenses of an undertaking increase and it is not possible to effect a corresponding saving on cost prices in some other direction, higher sale prices become inevitable.

The coal mining and metallurgical industries found themselves in a position similar to that of the Railway Company. The tide of higher wages has increased their expenditure and obliged them to raise sale prices, while the Government authorities have found it impossible to oppose the increase despite the injury which it may entail to general economic activity. The Railway in particular considers that the increase in coal and iron prices will further augment its annual charges by something like 30 millions. It must be noted that railways, unlike other industries, are not at liberty to close down this or that unprofitable branch of their undertaking, when cost prices rise. They have no resources other than an increase of rates. Therefore they must be allowed a certain amount of free play in this matter.

The necessity for doing so was plainly recognized by the Railway experts under the Dawes Plan, who insisted in their report upon the Company and its Management being granted the freedom of action in questions relating to tariffs and operating methods which is indispensable.

An effort was made in drafting the articles of the Law concerning the German Railway Company to ensure such freedom of action, while simultaneously protecting the economic interests of the country against excessive charges. For this reason § 33 of the Railway Law already quoted reserves to the Government the right of authorising new tariffs together with certain guarantees for the Company and for the reparation payments, which are also provided by § 34 which reads as follows:

> "The rights of supervision and control of the operation and tariffs of the Railways reserved to the Government by the present Law shall never be so exercised by the Government as to prevent the Company earning a net revenue adequate to secure the regular payment of interest and sinking fund on the bonds and the preference shares."

Capital expenditure.

I shall devote a special chapter of this Report to the capital expenditure effected by the Company; in particular I shall explain how such expenditure has hitherto been financed and also the rules observed in attributing expenditure to the operating account or to the capital account.

Since the creation of the Company the total expenditure effected on capital account and shown in the balance sheet for 1927 has amounted to 995.1 millions. If to this figure is added the capital

expenditure financed out of current operating receipts, the total works out at 1,311.2 millions.

The capital which the Company has been able to secure, in particular through the sale of preference shares, was considerably less than the above expenditure in view of the difficulties of borrowing which were explained in my previous Reports. In 1927 especially all capital expenditure was met out of the reserves created from operating surpluses.

In February 1928 preference shares to the value of 200 million marks were successfully issued on the German internal market, but this sum did not suffice to cover proposed expenditure and a new loan is therefore to be expected.

It is interesting to record the increase in the capital expenditure of the Prussian-Hessian railways only during the pre-war years:

	Increase
In 1911	344.6 million marks.
1912	489.6 » »
1913	611.3 » » .

In 1913 the increase in the capital expenditure was equivalent to almost 18 per cent of the total receipts. If the purchasing power of gold, which was about 50 per cent greater before the war as compared with to-day, is taken into account the above expenditure appears considerable.

After the war and during the inflation further large sums were expended on the German railways, which were devoted to orders of rolling stock or to new constructional work. The Railway Company was confronted from the outset by an enormous programme of large constructional works throughout the system. Some of these schemes were conceived with great foresight for future developments, but they were in no way proportionate to the resources available at the present day.

To this programme must be added the new schemes which have arisen in order to meet traffic requirements and the demands of interested parties. In view of the scarcity and costliness of the capital available in Germany, the Company cannot cover expenditure on a vast programme of constructional work except by having recourse to a large part of its operating receipts. It is therefore essential in the interests of the public, which ultimately has to bear such expenditure, that the Reichsbahn should examine all its schemes with the greatest prudence in order to restrict them in proportion to its financial resources, and in order that these resources may be concentrated on the really necessary and urgent work.

* * *

Reparation payments.

Reparation Bonds.

The payments due for the service of the bonds during the first reparation years were graded as follows:

1st reparation year (September 1, 1924—August 31: 1925)	200	million gold marks,
2nd reparation year (September 1, 1925—August 31: 1926)	595	» » »
(including 130 millions from a reserve constituted in the 1st year)		
3rd reparation year (September 1, 1926—August 31: 1927)	550	» » »
4th and subsequent years	660	» » »

The payments made on these bases from the application of the Experts' Plan to the present time are recapitulated in Annex II.

As from September 1, 1927, the payments correspond to the standard annuities and reach the maximum amount of the charge which the Company has to bear.

It will be recalled that the standard annuity of 660 millions includes on the one hand the service of interest at 5 per cent on the 11 milliards of reparation bonds and on the other hand the amortization of the bonds by a supplementary payment at the rate of 1 per cent per annum, or 110 millions plus interest saved in the successive years.

As the payments are made monthly, during its business year 1927 from January 1 to December 31 the Company had first to pay the instalments for the last eight months of the third reparation year to a nominal amount of 370 millions, consisting solely of interest payments without amortization, and had then to produce the instalments for the first four months of the fourth year amounting to 220 millions and consisting of interest payments to the amount of 183.33 millions and amortization to the amount of 36.66. The total (590 millions) corresponds in reichsmarks at the current rates of exchange to ℛ.𝓜 590,466,615 in all, consisting of ℛ.𝓜 553,799,948.33 in interest and 36,666,666.67 in amortization. These are the figures entered in the accounts of the Company. In reality the total actually paid falls short of ℛ.𝓜 590,466,615 and amounts to only ℛ.𝓜 583,892,882.99, as a result of the discount allowed on anticipatory payments. Nevertheless, it is not the latter figure obtained after deduction of the discount, but the former from which no discount is deducted which the Company has entered under payments, since it holds the view that the discount allowed is income from capital and has accordingly shown it elsewhere under receipts. The figures of Annex II on the other hand are net payments from which the discount has been deducted.

Transport Tax.

The Transport Tax collected by the Company has to be paid over on reparation account to an amount of 290 million gold marks from the third reparation year onwards. Any surplus yield of the tax goes to the Reich.

Since the beginning of the third reparation year and in virtue of an agreement which I have previously explained, the Company has no longer paid over the monthly proceeds from the Tax to the Agent General direct. It makes the payments to the Finance Minister who, irrespective of the amount actually received, himself makes the payments to the Agent General in accordance with a plan previously elaborated. For the fourth year the plan makes provision for eleven monthly payments of 24,166,000 gold marks falling due from October 15, 1927, to August 15, 1928, to the total amount of 265,826,000 gold marks, together with a supplementary payment on September 1, 1928, consisting of the surplus returns from the tax, within the limits of course of 290 millions.

Annex III indicates the payment made in respect of the Transport Tax by the Company and by the Reich since the application of the Experts' Plan.

It should be noted that the proceeds from the tax, which the Company collects but does not retain for itself, do not appear in the published accounts, operating receipts being always shown minus the tax. The proceeds are indicated in Annex III, from which it will be found that for the third reparation year they total ℛ𝑀 300,376,976.68, a figure somewhat exceeding the provisional estimate which I gave in my previous Report.

§ 15 paragraph (1) of the Railway Law reads as follows:

"The Company shall collect the transport tax at the rates in force on April 1, 1924. An agreement may be entered into between the Government and the Company for the simplification of the method of calculation of the tax, provided that no such agreement shall entail any reduction in the total yield of this tax". The rates referred to are 7 per cent for goods traffic other than coal and for passenger traffic a rate varying according to the class and amounting to 16 per cent for the first class, 14 per cent for the second, 12 for the third, 10 for the fourth, 15 for certain express train supplements and 12 for baggage.

In connection with the proposal to the Government of the Reich for an increase in railway rates for passengers and goods, the Reichsbahn contemplates a reformed classification of passengers, by which the number of classes would be reduced from 4 to 2 with in addition a luxury class. The question arises of the tax rates to be applied to this new classification, which must be fixed in accordance with § 15 of the law quoted above.

The Company proposes to fix the tax at a lumped rate of 10 per cent for the lower or wooden-seated class, 14 per cent for the uphol-

stered class and 16 per cent for the luxury class. It justifies this arrangement on the ground that the passengers of the one wooden class would be for the most part the occupants of the present 4th class. Further, the calculations carried out by the Company give reason to think that with the increase contemplated of 12 per cent in the base price for this class as compared with the present lowest class, the full tax yield of the last few years would be obtained in spite of the abolition of the 3rd class and the reduction in the 2nd class fare. As in addition any change in passenger rates will be accompanied by an increase in goods rates, which will necessarily raise the returns from the tax on goods traffic, the Company thinks it absolutely certain that there will be no drop in the tax total as a result of the proposed reform.

It nevertheless seems difficult to forecast with certainty what the results of the reform will be from the point of view of the tax returns. Is it possible, in view of the formal terms of the law, to agree to a change in the rates of the tax without absolutely guaranteed returns? This is a difficult question which in my view should be submitted to the Reparation Commission.

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Financing of Capital Expenditure.

The expenditure on extensions account of the Company since its creation, as shown in the balance sheets compiled at the end of each financial year, has been as follows:

Financial year 1925 (15 months)	239.0 millions.
Financial year 1926	407.6 »
Financial year 1927	348.5 »
Total	995.1 millions.

To this figure must be added certain sums included in the operating payments to the amount of

Financial year 1925	176.1 millions,
Financial year 1927	140.0 »
(including 70 millions from a reserve constituted in 1926)	
	316.1 millions.

We thus arrive at the total of 1,311.2 millions.

For the financial year 1928 the Reichsbahn, owing to difficulties encountered in raising capital, has endeavoured to cut down its expenditures on extensions account. One of the difficulties however which impede the reduction of the expenditure is the large amount of work in progress, most of which was already undertaken when the Company was created. The whole of this work represents expenditure to the estimated total of one milliard still to be effected.

The manner in which the expenditure is classified under the operating or extensions account has sometimes been criticised. In this connection I may quote the explanations given by the Company in its memorandum to the Government on the application to increase rate charges:

"The funds which the German Railway Company requires for this purpose are derived partly from current income and partly from fresh capital. The current income is devoted to cover the regular recurrent annual expenditure on salaries, wages, material, labour and current purchases, whereas the fresh capital is devoted to the construction of fresh installations or the extension and improvement of existing plant.

"Although the recurrent annual expenditure differs in its nature from the non-recurrent capital expenditure, the dividing line is very difficult to define in practice. For the maintenance required by the Law and necessitated by progressive wear and tear calls not only for the removal of defects but also for the renewal of separate parts, when the latter course appears expedient because of such wear and tear and economically cheaper than mere upkeep. And both upkeep and renewal are to be carried through 'to meet the progress in railway technique' (§ 9 of the Railway Law), and are thus always connected with improvements and extensions. Work, of the nature for example required under the special programme for improvements to rolling stock, implies both renewal and improvement. Or when for example the necessary material is substituted for worn out plant such as a turn-table or a bridge and such substituted plant is provided to meet the requirements of heavier traffic in anticipation of the future, such work represents an increased value over and above the value of the substituted plant.

"The German Railway Company has made it its business to apply commercial principles to the utilisation of its funds, principles in keeping with the practice of German and foreign railways and closely resembling those which were followed in the past by the Prussian State Railway Administration. It is necessary to discuss these principles because public opinion has repeatedly objected that too large a proportion of the expenditure was debited against the operating accounts and not covered by loans. It is true that the opposite viewpoint has also been put forward."

"According to the principles of the German Railway Company the following items are charged against the operating account and have therefore to be met out of current income.

1. Expenditure for the actual operating of the Railway (staff, tools, coal, oil, electric current etc.);

2. Expenditure on current upkeep to an unlimited amount:

3. Cost of renewals to an amount representing at least the expenditure required to maintain existing values. Here the Reichsbahn is doing what in industry is often done by writing-off;

4. Expenditure on minor improvements and extensions (plant increases) under *RM* 2000. This item is included solely for accounting purposes.

5. Expenditure in respect of the service of reparations and finance.

Extraordinary expenditure for increases of plant includes:

1. New capital expenditure for new lines, acquisitions of outside undertakings or holdings, rebuilding or reconstruction on a large scale, and such purchases as affect the returns by increasing current income or reducing current expenditures (capital account);

2. Expenditure for plant increases which has arisen in connection with expenditure for upkeep and renewals. By increases of plant is only meant the amount in excess of upkeep and renewal, that is to say the amount which represents an increase in value over and above the mere maintenance of the original value.

"Not every such increase in value justifies the expenditure of fresh capital; for, as the above examples show, it is very often a question of improvements required by 'the progress in railway technique', i. e., improvements which are for purposes of increased security or adaptation to technical and cultural progress. Were such improvements to be left out of consideration in connection with upkeep and renewal and the existing plant merely maintained in its actual condition, the undertaking would become out of date and lose in profit-earning capacity. The result in such cases is therefore an increase in the value of the plant but no corresponding increase in the returns. For this reason this category of increase of plant must in principle be 'written off', that is to say be met out of current income to the extent to which it merely maintains the profit-earning capacity at its existing level without increasing it."

For the expenditure on extensions account previously indicated, the Company has had at its disposal in past years, or will have at its disposal for 1928, the resources on capital account enumerated in the following table:

	Business year 1925 (15 months)	Business year 1926	Business year 1927	Business year 1928 (estimates)
Loans and third-party contributions	8.8	13.3	14	25.4
Credits from the Reich:				
100 millions to combat unemployment	—	58.0	22	—
53.3 millions to continue interrupted work	—	5.7	23	19.0
Sale of Preference Shares	86.0[1]	295.0	—	200.0
Totals	94.8	372.0	59	244.4

[1] The 86 millions shown above as derived from the sale of preference shares in 1925 have in fact been used to extinguish an old debt of 82 millions owing by the Company to the Reich: the balance of 4 millions represents the loss due to the sale of the shares below their nominal value.

It will be seen from this table that the Company is far from having found sufficient capital to cover the whole of this expenditure on extensions account. It has been obliged to draw on available funds derived from the working surpluses of its three business years. I have already explained why, since June 1926, it had been unable to contract any loan and had been obliged until the end of 1927 to cover its expenditure on capital account out of its own resources, thus reducing very considerably its available balances.

Fortunately at the beginning of 1928 there was a certain improvement on the German capital market which enabled the Company to obtain part of the capital it requires. It received and accepted an offer from a consortium of German banks originally under the leadership of the Deutsche Bank and subsequently of the Reichsbank. This consortium undertook to place on the market a loan of 225 million marks, of which a sum of 200 millions was taken over definitely.

The loan originally included two tranches of 100 millions, the first consisting of preference shares and the second to consist, as the consortium might select, either of preference shares or of bonds for three years. The consortium insisted on this possibility, in order if necessary to make allowance for the preference of the market for short term investments. As a matter of fact no use was made of the right to issue short term bonds. The issue of the first tranche was covered several times over, and the consortium decided to take the second tranche also in preference shares.

The terms of the preference shares for 200 millions thus issued are the same as those for the previous series; they carry a dividend of 7 per cent guaranteed by the Reich; they are accepted as a Trustee investment and are guaranteed by the Reichsbank. The rate of issue to the public was 93.50, but they do not entitle holders to the coupon for 3.5 per cent payable in the middle of the present year.

For a complete account of the transaction, it should be mentioned that the operation covers a third tranche of preference shares for 25 millions, which may subsequently be issued in agreement with the consortium but without its guarantee.

In conformity with the loan terms, the Company is to receive the proceeds from the shares for 200 millions already issued in five monthly instalments, the first of which fell due on April 1 last. These graduated payments have enabled the consortium to require only graduated payments from the subscribers as well—a step which was taken in order to avoid draining the money market.

The total for preference shares issued by the Company up to the present, including this last issue of 200 millions already sold, will be 1,081 millions. The total of the shares still to be issued is 919 millions, forming together with the shares issued the total of 2 milliards fixed by the Statutes. The following table (page 20) summarises the conditions in which the various issues were effected.

Series	Date of Issue	Nominal value (in millions of goldmarks)	Rate of preference dividend per cent	Rate of Issue per cent	Subscribers	Remarks
I	Sept. 1925	500	7	par	Reich	Shares which, under the Statutes, were to be sold for the benefit of the Reich but have been surrendered to it in kind.
II	Sept. 1925	124	7	96.77	Reich	
III	March 1926	107	7	94.00	Reich	
IV	June 1926	150	7	95.5	Public	Preference dividend guaranteed by the Reich.
V	Feb. 1928	200	7	93.5	Public	
		1,081				

The last issue of February 1928 will bring into the Company resources to cover its expenditure on capital account for 1928. But this issue will cover only part of the expenditure, since the Company estimates that it must borrow 400 millions in order to carry out its normal programme. If the position on the money market does not enable the company to raise new capital between now and the end of the year, it will be obliged to be satisfied with a reduced programme or to cover a larger part of its expenditure on extensions account out of operating receipts.

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Financial results of the operation of the Company.

The accounts and balance sheet for the financial year 1927 were approved by the Managing Board at its meeting of May 16, 1928. They were, as is customary, compiled in their final form after audit by the Hauptprüfungsamt, an auditing organisation which is responsible for checking the Company's accounts and is entirely independent of the services whose accounts it checks. In addition Professor Schmalenbach of Cologne was appointed by the Managing Board as an expert to ascertain whether the accounts were kept in conformity with the provisions of the Railway Law and the Statutes of the Company.

Annexes IV, V and VI of the present Report give the following documents in the customary form:

Operating account for the financial year 1927,
Profit and Loss account for the financial year 1927,
Balance sheet as at December 31, 1927.

Operating account.

Years	1927	1926	1925 (1) (12 months)	1913
	(in millions of reichsmarks)			
Operating receipts.				
Passenger traffic	1,379.6	1,320.2	1,430.7	904.0
Goods traffic	3,226.4	2,830.6	2,868.7	1,927.0
Various receipts	433.3	390.0	369.6	226.7
Total	5,039.3	4,540.8	4,669.0	3,057.7
Operating payments:				
I. Payments for Traffic and Maintenance.				
a. Payments to staff.				
Salaries of officials	1,068.4	1,043.4	1,064.8	
Wages of employees and workmen of Traffic Department	399.6	348.8	353.4	Payments to personnel
Pensions and retaining pay of officials, pensions of other persons having claims on the Company	424.0	418.5	405.6	
Other payments on account of staff	286.1	264.8	240.0	
Total	2,178.1	2,075.5	2,063.8	1,350.2
Less: General expenses for renewal and extension of plant	88.6	64.2	53.5	
Balance a: Payments to staff	2,089.5	2,011.3	2,010.3	
b) Payments for material.				
Consumption of coal and other working materials, maintenance of furniture and equipment	440.1	394.1	418.7	Payments for material
Maintenance of permanent way and structures	308.5	284.4	343.3	
Maintenance of rolling stock	542.0	487.2	618.2	
Other payments on account of material	97.6	89.6	97.2	
Total	1,388.2	1,255.3	1,477.4	855.0
Less: General expenses for renewal and extension of plant	39.8	42.8	35.6	
Balance b: Payments for material	1,348.4	1,212.5	1,441.8	
Total payments for Traffic and Maintenance (a plus b)	3,437.9	3 223.8	3,452.1	
II. Payments for Renewals.				
Renewal of furniture and equipment	2.2	4.0	21.2	
Renewal of permanent way and structures	479.3	375.4	353.4	
Renewal of rolling stock	239.4	77.4	111.9	
Extensions in lieu of renewals	—	—	36.2	
Total payments for renewals	720.9	456.8	522.7	
Grand Total of Operating payments (I and II)	4,158.8	3,680.6	3,974.8	2,205.2
Operating surplus	880.5	860.2	694.2	852.5
Operating coefficient	82.53%	81.06%	85.13%	72.12%

(1) The financial year 1925 consisted of 15 months, but in order to facilitate comparison the figures cited refer only to the calendar year.

As the Company has now completed its third business year, it seems of interest, when discussing the results for the financial year, to compare them with the figures for previous years and with the results obtained within the present frontiers during the year immediately preceding the war.

The receipts for the financial year 1927 exceed those for 1926 by 11 per cent and those for 1925 by 8 per cent, a rate of progression which is entirely satisfactory.

It should be noted that the increase in receipts is due to goods traffic and that in 1927 the receipts for passenger traffic still fell short of those for 1925.

The operating payments for 1927 total *R.M* 4,158.8 millions, a heavy increase over previous years.

This increase is due in the first place to the payments for personnel which amounted to approximately 100 millions. Nevertheless the rises in salaries and wages granted in the course of 1927, which will mean a heavy burden for the future, were only borne for a few months of the year in question, so that their effects have as yet only been slightly felt. The payments to staff for 1927, on a basis of the above accounts, amount to 2,089.5 out of a total of 4,158.8 millions. But in order to obtain the general total, it is necessary to add the wages of workers on the permanent way and in the workshops, which are included in the accounts under payments for material, and which bring the total up to 2,611.5 millions.

But the increase in payments in 1927 related more especially to payments for material and in particular to payments for renewals. As the upkeep and renewal of the permanent way in particular was neglected during the war and post-war years, the Company is to-day obliged with increasing urgency to carry out the postponed work and repairs. It is for this reason that the payments for the permanent way and structures show an increase as compared with the previous year of 24 millions for upkeep and 104 millions for renewals.

Payments for rolling stock were much reduced in 1926, when receipts were unfavourable. In 1927 some of the payments thus postponed had to be made. Further, the Company in 1927 much increased its new orders, although it possessed a surplus of rolling stock still estimated at the beginning of the year at 491.5 millions. It considered however that this material was too old to fulfil all traffic requirements and that it was short of the most modern types and of electrical material. Finally, it wished to show some consideration for the claims of the rolling stock construction industry, which for several years past had received only very reduced orders which it said were insufficient to justify keeping up its organisation and retaining its expert staff. The expenditure for new material for 1927 thus totalled 201.8 millions, or almost four times the figures for 1926 and 1925, which were 62.8 and 56.3 millions respectively. It is true that for future years the

Company anticipates a much more extensive programme of orders. It considers that this programme is anticipated by the orders placed in 1927.

Profit and Loss Account.

The operating surpluses of the Company in its various business years were utilised as follows:

Years	1927	1926	1925	1913
	12 months (in millions of reichsmarks)			
Service of reparation bonds:				
a) interest	553.8	574.3	332.7	450.3
b) amortization	36.7	—	—	
Service of new debts and loans	2.1	0.1	—	
Legal reserve (2 per cent of receipts)	100.8	90.8	93.4	—
Dividend on preference shares issued	61.6	40.4	3.0	
Reserve for writing off concession	120.0	70.0	114.6	—
Extraordinary expenditure for extensions	—	—	—	294.0
Transfer of profits to the State	—	—	—	108.2
Reserve for executing the programme of constructional work	—	70.0	—	—
Carried forward to next year	5.5	14.6	150.5	—
Total	880.5	860.2	694.2	852.5

I have already explained the manner in which the amount paid in 1927 for reparations was calculated. Annex II last column is also of assistance in showing the manner in which the business years of the Company overlap the reparation years and how the totals differ according as the payments effected are grouped under the business year or the reparation year.

The payment into the legal reserve is calculated at the rate of 2 per cent of the gross operating receipts, in conformity with article 25 of the Statutes. It therefore varies each year in proportion to the gross receipts of the year in question. According to Article 25, this payment is to continue until the legal reserve reaches the figure of 500 millions, which is expected to be the case by the end of 1929.

In my previous Reports I have indicated the object of the reserve for writing off the concession.

The above table, showing the use to which the operating surpluses were put, allows of an interesting comparison between the

capital charges borne by the Company and those which the German Railway had to bear before the war. In 1913 the service of debts, interest and amortization (taking the present frontiers) totalled 450.3 millions. Reparation payments totalled 590.5 millions in 1927 and are to attain their maximum figure of 660 millions this year.

However, in order to compare them with the pre-war charges, the depreciated purchasing power of gold since 1913 must be borne in mind. Taking as a basis the index number of prices which in Germany now stands at approximately 150, we may assume that 100 pre-war marks have the same purchasing power as 150 present day marks. The capital charge of 450.3 millions in 1913 would therefore represent in present day currency a charge of 450.3×150 per cent, or 675 millions.

In addition it must be remembered that the Railways in Germany before the war, and particularly the Prussian-Hessian section which was by far the most important, were accustomed indirectly to affect amortizations on a large scale, by covering a part of their capital expenditures from their operating receipts, and also by assigning to this capital expenditure a part of the profits coming to the States owning the railways. These indirect amortizations which are given in the above table for 1913 under the heading "Extraordinary expenditure for extensions" had the effect of reducing subsequent capital charges, and should be included with the capital charges of the year in which they were effected if an exact comparison is to be made.

A comparison between the capital charges may therefore be made in a somewhat different manner, and one that is probably more exact, by including the amortization and the service of the new loans, and by comparing the totals thus arrived at with the totals for operating receipts. We then have the following results.

In the case of the Reichsbahn, capital charges and amortization including reparation payments but not including of course the payments to the legal reserve nor the sum to be carried forward, amounted in 1927 to 774.2 millions. The ratio of this figure to the operating, receipts which amounted to 5,039.3 millions is 15.4 per cent.

In the case of the pre-war German railways—taking the present frontiers—capital charges and amortization amounted in 1913 as follows :

Interest and amortization	450.3
Extraordinary expenditure for extensions (equivalent to amortization)	294.0
Total of capital charges and amortization	774.3

The ratio of this figure to the operating receipts which amounted to 3,057.7 was 24.3 per cent.

To obtain the same ratio the charges of the Reichsbahn at the present day should be increased to 5,039 × 24.3 per cent = 1,225. They are much below this figure, being only 744.3 millions.

Balance Sheet

Assets

Years	1927	1926	1925
	(in millions of reichsmarks)		
Assets			
Concession in respect of the (original) property taken over (less legal writing off)	24,463.3	24,500.0	24,500.0
Concession in respect of increases of plant	995.1	646.6	239.0
Working supplies	407.5	439.0	485.4
Cash in hand	66.1	8.6	144.2
Credit balances with banks	374.1	532.1	344.6
Set aside for preference dividends (advance payment Series IV)	5.3	5.3	—
Securities	171.6	38.5	—
Bills	1.0	125.0	—
Claims:			
On traffic receipts account	11.4	20.1	20.8
On insurance and welfare organisations	0.1	0.1	0.9
Other claims	77.0	61.1	96.5
Temporary accounts	49.1	49.6	—
Holdings in other undertakings	16.5	8.0	6.5
Total	26,638.1	26,434.0	25,837.9

The first item on the assets side "Concession in respect of the (original) property taken over" represents the value of the usufruct of the system ceded to the Company. It forms the counterpart of the liability items which correspond to the undertakings assumed by the Company and forming its original capital, i. e. of the three following items:

	Original value
Ordinary shares	13,000 millions
Preference shares the proceeds of which go to the Reich	500 »
Reparation bonds	11,000 »
	24,500 millions

Upon the expiry of the concession the 500 millions of preference shares and the 11 milliards of reparation bonds are to be amortized in conformity with the Railway Law and the Company's Statutes. The item "Concession in respect of the (original) property taken

over" has then to form the counterpart for the 13 milliards of ordinary shares which alone are still in existence. In other words, the value of this item is to be amortized each year to an amount equal to the amortization of the reparation bonds and eventually of the 500 millions of preference shares.

This is the writing off which we see for the first time in 1927 and which reduces the initial value of 24,500 millions by 36.7 millions.

The following item "Concession in respect of increases of plant" which amounted to 995.1 millions in 1927 represents the expenditure on extensions account effected by the Company since its formation. I have already explained in the present report that—in order to arrive at the total expenditure on extensions account actually effected—certain sums included in the operating payments should be added to the figures contained in the balance sheets. Taking in particular the expenditure on extensions account in 1927, the balance sheet gives 348.5 millions (995.1 — 646.6) whereas the actual amount was 140 millions higher. Of the 140 millions of additional expenditure, one-half (70 millions) was included under expenditure in respect of renewals in 1927 and the other half (70 millions) was met out of a special reserve formed in 1926 for the execution of the programme of constructional work.

The expenditure which has been entered against the account "Concession in respect of increases of plant" as increasing the assets of the Company, during the three business years, is distributed as follows (in thousands of reichsmarks):

Categories	1925	1926	1927	Total
I. Land sites	18,266	18,181	23,750	60,197
II. Embankments etc.	27,822	36.063	25,512	89,547
III. Fencing in	371	579	392	1,342
IV. Road crossings.....	26,324	16,183	6,871	49,378
V. Aqueducts and bridges	17,973	30,953	15,488	64,414
VI. Tunnels	3,000	636	3,575	7,211
VII. Superstructure	50,141	90,924	41,700	182,765
VIII. Electrification	43,380	20,291	6,221	69,892
IX. Telegraph,telephone,etc.	8,959	12,734	7,859	29,552
X. Stations	69,721	69,685	50,180	189,586
XI. Workshop plant	32,475	29,730	20,175	82,380
XII. Miscellaneous plant....	4,391	3,385	1,742	9,518
XIII. Rolling stock	45,649	78,258	35.543	159,450
Total....	348,532	407,602	239,008	995,142

"Working supplies" show a steady decrease since 1925. This reveals on the one hand the efforts which have been made to reduce stocks by improving the system of utilisation of working supplies, and on the other hand the desire to make a prudent estimate.

"Cash in hand" amounts to 66.1 millions as against 8.6 millions in the previous years balance sheet. The apparent increase is due to the fact that this item of the balance sheet contains as at December 31, 1927 the actual value of the cash in hand in all the cash offices of the Company, whereas it only covered the cash in hand at the Central Office and the principal offices in the previous year's balance sheet, as the sums with the local cash offices were then considered to represent advances from the principal offices and were entered in the balance sheet under "Other claims". It should not therefore be thought that there has been an increase in the liquid funds of the Reichsbahn.

The total of the items "Credit balances with banks", "Securities" and "Bills" fell from 695 millions in 1926 to 546 millions in 1927, a reduction of 149 millions representing the falling off in the available funds of the Company during 1927. I shall return to this question when examining the item "Legal reserve" under the liabilities of the balance sheet.

The increase in the item "Securities" is explained by the fresh purchases of mortgage bonds or State loans effected during the year for the purpose of investing the funds of the legal reserve.

The reduction in the item "Bills" is due to the new agreement concluded with the Reichsbank for the administration of the available funds of the Railway, to which reference will be made later, in another section of the present report.

The increase in the "Holdings in other undertakings" is chiefly the result of further purchases of shares to assure to the Company complete control over the Mitropa.

On the liabilities side of the balance sheet we find first the various capital liabilities. The ordinary shares to the amount of 13 milliards belonging to the Reich and the preference shares handed over free of charge to the Reich to the amount of 500 millions remain unchanged. The preference shares issued for the benefit of the Company have remained at the figure of 381 millions since 1926, there having been as we know no fresh issue in 1927.

I have already referred in the present report to the fact that the reparation payments have included since the payment effected on October 1, 1927, a certain sum for the amortization of the reparation bonds in addition to the interest on the bonds. This is the item which we find under the liabilities of the balance sheet as at December 31, 1927, which reduces the "reparation bonds" by 36.7 millions as compared with the previous year.

The legal reserve amounted to 305 millions at the end of 1927. To understand the use to which it has been put and the conditions under which it is maintained, there is interest in examining the items which may be considered as forming its counterpart on the assets side of the balance sheet. In the first instance we have the item "Securities" which include the Bourse securities purchased

as an investment of this reserve fund, and which totals 171.6 millions. The balance is formed of the items which go to make up the available funds of the Company.

Liabilities of Balance Sheet.

Years	1927	1926	1925
	(in millions of reichsmarks)		
LIABILITIES			
Ordinary shares	13,000.0	13,000.0	13,000.0
Preference shares:			
a) the proceeds of which the Reich is entitled to claim	500.0	500.0	500.0
b) the proceeds of which go to the German Railway Company	381.0	381.0	124.0
Reparation bonds (less legal amortization)	10,963.3	11,000.0	11,000.0
Legal Reserve	305.0	204.2	113.4
Working reserve	756.1	756.1	756.1
Reserve for writing off concession	340.0	220.0	150.0
Reserve for execution of programme of constructional work	—	70.0	—
Debts:			
Caution monies (Pfandgelder) and Suspense accounts	4.1	4.9	28.6
Credits of the Reich:			
for combating unemployment	80.0	58.0	—
for continuance of suspended contructional work	28.7	5.7	—
Insurance and welfare organisations	5.0	10.9	5.7
Other debts	40.0	15.1	4.0
Net profit	234.9	208.1	156.1
To be distributed as follows:			
Preference dividends:			
Advance payment on Series IV	(5.3)	(5.3)	—
As yet undistributed (Series I, II, III and balance of Series IV)	(56.4)	(35.1)	(3.0)
Carried forward	(173.2)	(167.7)	(153.1)
Total	26,638.1	26,434.0	25,837.9

Under these circumstances, if we take the total of the available assets including the Bourse securities (total of items "Cash in hand," "Credit balances with banks," "Securities" and "Bills") as at December 31, we obtain a figure of 612.8 millions of which 305 millions represent the legal reserve, thus leaving the Company for its requirements merely 307.8 millions. It will be realised that this figure is very small if we remember that the gross receipts or payments of the Company totalled and even exceeded 500 millions during some of the months of the year. The available assets which I have just estimated as at December 31, 1927, fell still further in the following months. They are again increasing, but it may be said that the liquidity of the balance sheet has approached the minimum which the Company can risk without being forced to draw from the funds which should be assigned to the legal reserve.

In this connection it is of interest to quote the opinion of Professor Schmalenbach and the observations contained in his report to the Board of the Company on his examination of the accounts.

Professor Schmalenbach stated:

"Some observations of an accountancy nature are necessary in respect of the investment of the available funds.

"On the liabilities side there is the legal reserve entered at ℛℳ 305 millions. As long as this reserve fund was small there was no reason to examine whether the liquid funds of the Reichsbahn sufficed for the particular aims of the Company. It has however increased to an amount exceeding 300 millions and in a few years it will attain the 500 millions prescribed by the Statutes, with or without operating surpluses. The time has therefore come to examine the conditions resulting therefrom in connection with the liquidity of the balance sheet.

" In this connection it should be remembered that the legal reserve is not only intended to serve the usual object of reserve funds under commercial law, i. e. to make good operating deficits. The object of this reserve fund is more extensive; it has in addition to 'ensure the regular service of interest and amortization of the reparation bonds.' This peculiar characteristic is emphasised by the fact that the fund is to be formed not—as is the case with commercial reserve funds—in proportion to the net profits, but in proportion to the operating receipts.

"This shows that the legal reserve is intended to influence not only the accounts but also the working funds of the Company.

"As a matter of fact there is no specific provision to be found either in the Railway Law or in the Company's Statutes with regard to the investment of the legal reserve. But the consequences which any irregularity in the payment of interest and amortization would entail are so serious, that they constitute in effect a much stricter control than any specific provision with regard to investment could afford.

"The effect of this restriction is to oblige the Railway Company to increase the legal reserve in order to strengthen its available funds. There is no question here, as in the case of other concerns, of securing a liquidity of funds which may be highly desirable but is not absolutely necessary. In the case of the Reichsbahn the simultaneous increase of the available funds and the legal reserve is a necessity."

First results of the business year 1928.

The new financial year has opened favourably if we examine receipts alone. These show a surplus as against the corresponding months of 1927 which were in their turn more satisfactory than the corresponding months of 1926.

This improvement in receipts must not however give rise to exaggerated hopes as to the results of the whole year. It must be observed in the first instance that there are already certain tendencies indicating a slackening of traffic.

This slackening of traffic is very noticeable, as the following table shows, if the gross monthly receipts for 1928 are compared with the gross monthly receipts of the opening months of 1927:

Gross monthly receipts in millions of reichsmarks					
Years	January	February	March	April	May
1927.....	386	381	441	418	442
1928.....	418	413	459	436	452
1928 as against 1927...	+ 8.3 %	+ 8.4 %	+ 4.1 %	+ 4.3 %	+ 2.3 %

The total for provisional net receipts (after deduction of the transport tax) for the first four months of 1928 gives the same impression.

Years	Net receipts (in millions of reichsmarks)			
	January	February	March	April
1927 (definitive receipts)	373	350	404	392
1928(provisional receipts)	382	380	428	403
1928 as against 1927 ...	+ 2.4 %	+ 8.6 %	+ 5.9 %	+ 2.8 %

It must also be noted that the opening months of 1927 which are taken here as a basis of comparison are not particularly favourable. Apart from seasonal fluctuations, the curve of receipts for 1927 remained fairly low until May when it began to rise. The curve of receipts for the present year will probably work out higher at the beginning as compared with 1927, but show a fall towards the end, so that the surplus of receipts for the whole year will very likely not correspond to what might have been expected from the results of the first few months.

This conclusion may be obtained by another method. The average results of the pre-war years and of the first three business years of the Company appear to indicate that under normal conditions the receipts obtained during the first four months of a year represent approximately 29 per cent of the passenger and 32 per cent of the goods receipts of the whole year. By applying these average coefficients to 1928, and taking into account sundry receipts, we arrive at a total only very slightly in excess of the total obtained in 1927.

For these various reasons it is therefore to be hoped that the receipts in 1928 will attain or perhaps even slightly exceed the receipts for 1927, but it would not be wise to anticipate a large surplus.

On the other hand expenditure will show an appreciable increase due to various causes.

The first and the most important cause is the increased payments in respect of staff. In the chapter devoted to this subject I have examined the conditions under which the Reichsbahn will have to meet its expenditure on staff to an extent of an additional 436 millions as compared with the beginning of the financial year 1927, in spite of the fact that the number of persons employed this year is slightly inferior to 1927. This increase of 436 millions is the result of the salaries and wages increases which the Company was obliged to grant during 1927 and which are making themselves felt to their full extent in the present business year.

It is also the result of the increase in pensions and retaining pay, which rise simultaneously with the salaries of officials actively employed and are a particularly heavy burden for the Reichsbahn, which has to bear the consequences of the considerable increases in the number of persons employed which followed on the war, and of the subsequent dismissals. As indicated in the chapter on personnel, the expenditure on pensions and retaining pay is estimated at 500 millions for 1928, as against 114 millions before the war. This is an absolutely excessive charge, imposed for political reasons which have nothing to do with the operation of the Reichsbahn.

Reparation charges will increase by 110 millions, from 550 millions to the full and final amount of 660 millions.

Finally, various causes such as the increased amount to be devoted to the preference dividend following fresh issues, the losses to be met if these issues fall below par, and various additional charges bring up the expenditure to a figure estimated by the Company at 105 millions.

The total fresh expenditure to be met by the Company as compared with the beginning of 1927 may be given as follows:

Expenditure on account of staff	436	millions
Increased reparation charges	110	»
Increase in sundry charges (preference dividend, losses, etc.)	105	»
Total	651	millions

It must also be remembered that this figure does not include the exceptional expenditure which the Company may have to effect at any moment for the upkeep and renewal of permanent way and constructions. During the war and the years following, upkeep and renewal were neglected to some extent with the result that the Company is today faced by a considerable outlay which will have to be spread over a not very large number of years.

For these reasons the operating receipts are not sufficient to cover payments. Now the Company does not think it possible to reduce its expenditure, which is more or less forced upon it, in respect of the staff as a result of wage and salary findings to which it has had to submit, and in the case of material because any postponement of expenditure would only affect future years and increase

the charges. Charges which concern the working budget and are recurrent cannot be met either by loans or by any form of credit.

In these circumstances the Company is obliged to have recourse to an increase of tariffs as referred to by me in another part of the present report, and to which I will refer more in detail in the chapters devoted to passenger and goods traffic.

Verkehrskreditbank.

It will be recalled that this bank is closely affiliated to the Reichsbahn, that it is in some sort its financial department and that it is entrusted with the administration of its available funds.

I have already explained that in view of the importance and origin of the funds in question objections had been made against their administration by such an organisation. Emphasis was laid on the advantage which the Reichsbank would enjoy in its currency policy and in its guidance of the money market if all the public and semi-public funds, notably the Railway funds, were concentrated in its hands. It was under these circumstances that an agreement was concluded at the beginning of 1927, regulating—provisionally and until the end of 1927—the relations between the Verkehrskreditbank and the Reichsbank.

Under the terms of this agreement the Verkehrskreditbank only retains the sums necessary for its proper working. The remainder is deposited with the Golddiskontbank, an institution in close touch with the Reichsbank, that is to say the Verkehrskreditbank thus transfers sums which at certain times of the year exceed 250 millions.

As this provisional agreement expired at the end of 1927, a new agreement was concluded on a less temporary basis. It has retained and extended the provisions for passing the greater part of the Railway funds through the Reichsbank.

Under this arrangement the Verkehrskreditbank only retains a sum which has been fixed approximately at 250 millions and is strictly calculated in proportion to the bank's requirements, for financing the deferred freight system and current advences to the Company's contractors. The surplus, that is to say the amount exceeding 250 millions, is paid into a special account opened by the Reichsbank in the name of the Verkehrskreditbank. Steps have been taken to simplify and speed up the transfer of the funds, as and when received from the stations and other offices of the Railway, to the special account at the Reichsbank.

The funds thus centralised are administered by the Verkehrskreditbank in agreement with the Reichsbank.

The arrangement, which appears to give entire satisfaction to the wishes expressed by the Reichsbank for some time past, and which finally regulates the administration of the Railway's available funds, is likely to put an end to the controversies on the matter.

* * *

Position of Staff.

Number of persons employed.—As explained in my previous Report, the total number of persons employed is likely to remain approximately stable in future, appart from variations which are mostly due to seasonal influences and relate in particular to temporary workmen.

It will be recalled that the Railway was obliged to take on demobilised soldiers, so that the staff was augmented beyond all reason after the war and still totalled 1,010,876 in October 1923. In 1927 the monthly average was only 704,016, and it is hoped to reduce this average to 688,000 in 1928. This figure is approximately the same as that for 1913, when the Railway employed 692,714 persons within the present frontiers of the Reich. The results obtained seem all the more satisfactory in that traffic has increased considerably during the last few years. They give reason to think that the return to stable conditions in the matter of staff is almost completed and that no further extensive reductions of staff are to be expected.

The following table indicates the variations in staff since 1913 and shows that stable conditions have been practically obtained for the past year.

	1913 (new frontiers)	1919	Oct. 1923	March 1927	Oct. 1927	March 1928
Officials.....	263,887	333,503	429,716	315,112	312,325	311.039
Workmen ...	428,827	789,002	581,160	365,576	416,476	358,258
Total	692,714	1,122,505	1,010,876	680,688	728,801	669,297

The reduction is the result of organisation and rationalisation measures carried out by the Reichsbahn since 1923, and of technical improvements in the operation of the lines. I may mention in particular the use of the automatic brake for goods trains, which has made it possible to reduce the staff of brakesmen by about 20,000 and to increase the transport capacity and the utilisation of the trains, so that to-day passenger and goods traffic far in excess of the pre-war level can be ensured with fewer trains.

Salaries of officials.—On December 16, 1927, the Reichstag voted the bill already analysed in my last report for an increase in the salaries of officials. It introduced in the bill only unimportant amendments, relating in particular to the distribution of the officials among the various classes or to the provision of slight increases for certain officials of the middle and lower grades. Owing to the budgetary position, the Government was indeed opposed to any proposals for salary increases on a larger scale. The Law of December 16 came into force with retroactive effect as from October 1, 1927.

The Reichsbahn is not obliged strictly to apply the rules in force for the officials of the Reich. Under the Railway Law of August 30, 1924, it is merely obliged "in fixing the pay and permanent allowances of its officials and employees (Reichsbahnbeamte) other than superior officers, to take into consideration the position of Reichsbeamte". The Reichsbahn has always complied with this regulation and has accordingly adjusted the salaries of its officials in accordance with the Law of December 16.

The new Regulations, dated January 9, 1928, divide the personnel into seventeen classes as against thirteen, Class 1 being the highest, and six secondary classes which will gradually be eliminated.

The base salary has been raised in a proportion varying between 18 per cent for the higher classes and 44 per cent for the lower classes; the rise averages 25 per cent for all the officials.

In addition the various allowances granted to officials have been appreciably modified, with the result that the average total increase under the reform has been reduced to 15,5 per cent.

a) Housing allowances. — The rate of this allowance varies in accordance with seven tariff grades and five local grades. It is retained at its previous level for married officials and reduced for unmarried officials under 45 years.

b) Family allowances. — The special supplement of 144 marks per annum accorded to married officials disappears and is considered to be included in the increase of the base salary. The allowance for children, which varied according to their age, up to twenty-one years of age, is now fixed at 20 marks per month and per child; it will no longer be paid beyond sixteen years except in special cases.

c) Local high cost of living allowances. — These allowances, which vary in amount, were granted to the officials in some big cities, Berlin, Hamburg-Altona, Essen, Cologne, Aachen, Mannheim and the occupied territory. They constituted a privilege, the abolition of which has for some time past been under discussion. Although the Law of December 16 does not expressly mention these allowances, a Decree of the Reich published at the same time as the Law announced a considerable reduction.

The Reichsbahn calculates that the increase in salaries now in force, together with the automatic increase in pensions and retaining pay involved, will impose upon it an additional charge of 215 million marks per annum as against the original estimate of 150 millions.

The average annual income of an official of the Reichsbahn is now 3855 marks, as against 2110 marks in 1913 and 3267 marks before the salary reform. Taking 100 as the index for the prewar base salary, the present salary index is 182.7. As the cost of living index was only 150.7 for April 1928, it will be seen that

the salary of an official corresponds in purchasing power to-day to 121 per cent of the pre-war salary. This figure is of course only an average and is not applicable to all officials. According to the Reichsbahn estimates, the increase in salaries for the lower classes of officials appreciably exceeds the average indicated, whereas for the middle, and in particular the higher classes the increase is considerably below the average.

Wages of workers and working hours.—Since October 1927 the Regulations for workers' wages have also undergone various changes which have helped considerably to increase the expenditure on personnel of the Reichsbahn.

In the first place there are the increased high cost of living allowances granted to workers in certain districts. The negotiations between the Administration of the Reichsbahn and the Railwaymen's Unions date from the middle of 1927. The Unions then demanded a general rise in wages, but the Reichsbahn refused to discuss the question before the expiration of the collective wages contract on March 31, 1928. Nevertheless, in order to meet the workers, it proposed, and the workers agreed, that their wages should be adapted to those of workers in private industry in all districts where balance was not already in existence. The negotiations opened on this basis in September led on December 26, 1927, to an agreement under which about 57 per cent of the workers employed received an average increase of 2 pfennigs per working hour. The costs of the reform are estimated by the Reichsbahn at 11,700,000 marks.

The Unions nevertheless continued in principle to claim a general rise in wages. The arbitral award of April 8, 1927, which had already increased wages by 4 pfennigs per hour up to October 1 and 1 additional pfennig per hour as from that date, expired as stated on March 31, 1928. Some time before this the Unions exactly defined their claims: a general increase in wages of 10 pfennigs per hour, higher pay for workers dealing with the operation of the lines and traffic, and an increase in the special rates of pay provided by the arbitral award of April 8, 1927, for overtime.

The Reichsbahn stated that it was impossible for it to satisfy these claims, which would have burdened its annual budget with supplementary expenditure to the amount of 250 millions. It submitted the dispute to the Minister of Labour. An Arbitration Committee set up to settle the matter pronounced a decision on March 21 on the basis of which the Reichsbahn and the Unions concluded the following agreement on March 27.

a) the general increase in wages for all workers of more than twenty-four years of age varies between 3 and 6 pfennigs per hour according to the wage categories and the three economic areas (East, Centre, West) among which the workers are distributed.

b) The special allowance for overtime, which was previously fixed at 15 per cent of the normal wage for the 49th to the 51st hour, and at 25 per cent as from the 52nd to the 54th hour, is now fixed at a uniform rate of 25 per cent as from the 49th to the 54th hour.

c) The special allowance for workers in shifts (workers dealing with the operation of the lines) is raised from 27 to 30 pfennigs.

The agreement, which is valid until January 31, 1929, may not be denounced before that date. The alarm caused by the prospect of a serious wages dispute in the Reichsbahn is thus happily dispelled.

The wages reform will impose on the Company 60 millions of new expenditure per annum. The working hour, the average wage for which was 42 pfennigs before the War, is now paid at the rate of 84 pfennigs, which means that the rate has doubled. It follows that with a cost of living index of 150.7 the wage per working hour is equivalent in purchasing power to-day to 132.5 of the 1913 wage. The result is approximately the same if the calculation is based on the annual wage of the worker. Whereas the average annual wage of a Reichsbahn worker was 1,267 marks before the War, it is to-day 2,343 marks; it thus corresponds to an index of 184.93 as against 100 in 1913. Calculated in terms of purchasing power, the average annual wage of 1928 corresponds to 122.8 per cent of the average 1913 wage. The difference noted between the results of the two methods of calculation is explained by the decline in the number of working hours per annum which has occurred since the War. From the point of view of the budget of the Reichsbahn, the calculation per working hour obviously gives a more exact idea of the increase in expenditure imposed on the Company.

The negotiations opened between the Reichsbahn and the Railwaymen's Unions for a reduction of the working hours of the workers operating the lines have led to an agreement whereby the maximum working hours prescribed by the regulations in force are reduced from 60 to 57 per week. The additional expenditure entailed by this reform will be in the neighbourhood of 5 million marks. For reasons of economic necessity it was found impossible entirely to satisfy the demands of the Unions for a maximum figure of 54 working hours per week.

Pensions.—The burden imposed on the Reichsbahn by the increase in salaries and wages is all the heavier in that it is accompanied by a proportional increase in the expenditure devoted to pensions and social insurance.

It should be noted that there is no pensions fund for the officials of the Reichsbahn. No reserve has ever been constituted to guarantee the payment of pensions, either now or before the War. Pensions are thus paid directly out of the operating account of the Company.

The pensions include pensions paid upon retirement, those paid to widows and orphans and the retaining pay (Wartegeld) accorded

to officials who were dismissed in virtue of the Decree of October 27, 1923, on staff reductions.

The expenditure provided for these various sections has been considerably increased. From 114 millions in 1913 it rose to 405.6 millions in 1925, 418.5 millions in 1926, 423.9 millions in 1927, while the estimate for 1928 is 500 millions. This means that, if the charge for pensions in 1913 is represented by 100, the present charge is 438.6. The average pension granted per annum to each pensioner was 918 marks in 1913; in 1928 it is 2,060 marks, corresponding to an index of 224.4 as compared with 100 in 1913.

This steady rise in the charge for pensions is mainly due to the following reasons:

(1) the increase in the number of widows and orphans as a result of the War;

(2) the inflation of the personnel in 1919, when the railways were taken over by the Reich, followed by a sudden rise in the number of retirement pensions, when in 1923 a large part of this superfluous personnel had to be dismissed;

(3) the increase in the maximum rate of pensions from 75 to 80 per cent and the increase in the rate of widows' pensions from 40 to 60 per cent;

(4) the classification of old pensioners in new salaries groups and the automatic increase of pensions due to the increase in officials' salaries.

The number of pensioners has increased by 195 per cent since 1913. The following table indicates the variations per category:

Years	1913	1925	1926	1927
Retired employees	59,214	89,204	98,595	114,404
Retaining pay	13	49,270	38,544	24,513
Widows	59,431	72,884	75,375	77,891
Orphans	5,560	31,089	26,874	25,865
	124,218	242,447	239,388	242,673

The Reichsbahn has been forced to accept the increase in the charge for pensions as a necessity imposed upon it by circumstances. It has endeavoured to reduce the charge as far as possible and in particular to relieve the heavy burden for retaining pay. It has transferred to the workers category some of the young superfluous officials of the lower classes (about 12,500). Further, it has succeeded in obtaining work for 2,000 of its officials under the Postal Administration.

The supplementary charge due to the exceptional circumstances explained above will however be reduced only very slowly, since the pensioners and officials on retaining pay are entitled to their salary or pension all their life; the Reichsbahn is of opinion that no serious relief from these charges will be obtained for ten or more years.

A reasonable solution would be to transfer from the Reichsbahn to the Reich part of the cost of pensions paid to superfluous officials who were engaged for political reasons during the inflation years. This method, which has been applied in Austria, has been recommended in Germany also by professional organisations and persons of various political views; up to the present however it does not seem to have received attention.

Social charges. The workmen and employees of the Reichsbahn are subject to social insurance under the conditions fixed by law. The social charges of the Company, which were 38.5 millions in 1913, are estimated at about 136 millions for 1928. This enormous increase is due to the constant rise in wages and in the statutory rates.

Health insurance is compulsory for all workers without exception and for employees whose annual wage does not exceed 3,600 marks. The subscriptions are at the rate of one third by the Company and two-thirds by the insured person. The costs incurred by the Reichsbahn for insurance exceeded 22 millions in 1927.

Accident insurance, which is borne in full by the Company and cost it in 1927 almost 19.5 millions, relates to all persons employed by the Reichsbahn.

All the workers employed come under the insurance for disabled persons (old age), widows and orphans. Half the subscription is borne by the Company and half by the insured person. In 1927 the Reichsbahn devoted almost 16 millions to this insurance.

The employees benefit by a special disablement insurance, which imposes on the budget of the Reichsbahn expenditure to the amount of rather more than 1 million per annum.

Since October 1, 1927, the insurance against the risk of unemployment has been converted into a legal insurance system covering all beneficiaries under health insurance; half of the cost is paid by the Company and half by the insured person. The outlay for unemployment insurance exceeded 12 millions last year.

A part from these legal insurance systems, the total for which was estimated at 71.2 millions for 1927, the Reichsbahn has instituted a system of benevolent relief, which supplements in the case of certain officials the annuities granted by the State funds and guarantees the officials against sickness. The following are the Reichsbahn funds:

a) the fund for sickness and surviving dependants (Kranken- und Hinterbliebenenkasse) which the Company does not subsidise, although it supports all the costs of administration.

b) The fund for relief in sickness of the officials of the Reichsbahn (Reichsbahnbeamten-Krankenversorgungskasse) which was set up on April 1, 1926, and to which the Company pays, in addition to the sums destined to cover administration costs, an annual subsidy amounting in 1927 to 12 millions.

c) The special disablement fund of the railway workers, which is administered by the Company. One-third of the subscrip-

tion is paid by the insured person and two-thirds by the Company, which devotes about 29 millions to this fund annually.

In addition the Reichsbahn distributes various relief payments. The sums devoted to benevolent relief thus amounted in 1927 to 46.5 millions which, with the addition of legal insurance to the amount of 71.2 millions, make up a social charge of 117.7 millions. As I have already mentioned, the estimates for 1928, owing to the recent increase in wages, amount to almost 136 million marks.

When considering the efforts of the Reichsbahn during past years to improve the material well-being of its workers, mention must be made of the progress in the construction of dwellings. In 1927 the Company made a new grant of 16 million marks to the building co-operatives in the form of second mortgages. This enabled a beginning to be made with the programme for the construction of 8000 dwellings, the total cost of which is estimated at 90 millions. The Company has also succeeded in maintaining the rents of these new apartments at a relatively moderate level by reducing the rates of the mortgages given by it and by assuming responsibility for a part of the interest on the mortgages given by third parties. These measures have assisted the Railway staff to cope with the difficulties due to the housing crisis, but they have imposed a considerable burden on the Company in addition to the charges to which reference has already been made.

Upon examining the whole of the present expenditure on personnel and comparing the total with that provided in the budget when the Company was constituted in 1924, we find a total increase of 757.7 millions. In the past year only, the increase has reached the considerable figure of 435.7 millions made up as follows:

a) Increase of 20 per cent in the housing allowances paid to officials (April 1, 1927 : 10 per cent, and October 1, 1927 : 10 per cent)	46	millions.
b) Increase in workers' wages fixed by the arbitral award of April 8, 1927	75	»
c) Increase in allowances for the high cost of living paid to workers (July 1927)	1	»
d) Increase in allowances for the high cost of living paid to workers (agreement of December 26, 1927)	11.7	»
e) Increase in salaries of officials and in pensions under the Law of December 16, 1927	215	»
f) Increase in workers' wages fixed by the arbitral award of March 21—28, 1928	60	»
g) Increase in social charges	22	»
h) Reform of working hours of workers dealing with the operating of the lines	5	»
Total	435.7	millions.

General development of Traffic.

At the end of 1927 the Company terminated its third business year. Before examining the results obtained during that period, it would appear of interest to give a rapid description of the development of traffic during the past few years and to deduce therefrom the prospects for the future.

In Annex No. VIII will be found a graph showing the principal results in respect of passenger and goods traffic in 1924 compared with 1913.

Passenger traffic, which still suffered in 1924 from the separation of the Ruhr and Rhineland lines, recovered very appreciably in 1925, which was the most favourable year for this traffic since the formation of the Company. In spite of the increased rates introduced on May 1, 1925, the movement of passengers was very considerable, especially in the summmer months. From the end of the year however there was a falling off, as shown by the fact that the number of passengers in 1926 fell by 13.6 per cent. An improvement is only to be observed since the spring of 1927.

The number of passengers carried in 1927 has nevertheless remained practically the same as in 1924 and is still approximately 9.4 per cent less than in 1925. It is thus clear that, taken as a whole, passenger traffic has increased very slightly in Germany since 1924

I would also point out that for some time past a serious falling off has been observed in other countries; in the United States for example the figure fell by $^1/_3$ from 1920 to 1927 whereas the population increased by 13 per cent during that period. In Great Britain the reduction has amounted to 9 per cent for the period 1923-27.

It is interesting that the economic revival, which took place in 1926 and 1927 and was accompanied by a rise in wages and a general improvement in the standard of living, has only had a slight and gradual influence on passenger traffic. This would appear to be due to the fact that the railways in Germany as elsewhere are daily losing their predominant position. Public interest is turning more to other means of transport which have not yet been fully developed as is the case with the railways. Whilst passenger traffic on the railways fell considerably between 1925 and 1927, the number of persons carried by the automobile services of the Postal Administration and the chief motor companies doubled during the same period, whereas the number carried by air is three times as large. It is possible that improved services on the Reichsbahn and certain tariff reforms may to some extent stop the resort of passengers to other means of transport. The competition which the railways thus have to meet nevertheless appears destined to increase more and more.

Although traffic may increase to some extent during the next few years owing to the development of commerce and trade and

an improved standard of living, too much must not be expected in regard to passenger traffic.

Since 1924 the position of goods traffic has been much more satisfactory than that of passenger traffic. The improvement which has taken place during the past few years in the economic position of the country has been manifested very clearly in the development of traffic; on the other hand the British coal stoppage greatly benefited traffic in 1926, by giving rise to exceptional transport.

Thus, since the formation of the Company down to the present day, goods traffic has increased almost without interruption, if we except the period between the end of 1925 and the summer of 1926 when Germany was passing through an economic crisis. The results were specially satisfactory in 1927. If we compare them with those of 1925 we find an increase of 16 per cent for the km.-tonnage. which corresponds to an average improvement of about 8 per cent from one year to the other. Before the war when the system was developing rapidly, the ton-km. increased each year on an average only by 5.5 per cent.

At the same time it should be observed that the very remarkable increase in goods traffic during 1925 and 1927 was due to a great extent to the special conditions prevailing in the economic life of the country during recent years.

The reviving trade of Germany developed briskly; industry following rationalisation laid in large stocks and extended its plant by means of large outlay on capital expenditure, assisted by the influx of foreign capital. 1927 in particular was characterised by a very great activity in production and increased home consumption and a reduction of exports. The result was a large increase in home transports and in imports.

As the exceptional circumstances which accompanied the preceding years are no longer present, it is probable that economic progress will be less rapid in the future and that there will be a slackening of traffic development.

Certain other causes for the falling off of railway transport. the importance of which tends to increase from year to year, must however also be considered. I would draw attention in the first instance to the increased number of motor lorries which are being substituted for the railway for the transport of goods over short distances.

The technical progress realised in the utilisation of coal, the more general utilisation of liquid fuel, the extension of high tension lines for the transmission of electric power will in the future lead to a falling off in coal transports. During the period 1925-27 and in spite of the effects of the British coal stoppage, the increase in coal transports was only 10.6 per cent, whereas the tonnage of commodities other than coal increased by 20 per cent.

Germany is preparing to exploit on a large scale the new processes for liquid coal, and on the other hand vast schemes are

in course of preparation for the transport and distribution over long distances of gas produced in the mining centres. It is not possible at the present time to forecast the moment at which the schemes will be fully realised, nor the influence that they are likely to exercise over coal traffic. It appears to me however that it will be of interest to note here that, according to an estimate by an economist which appeared in the Verkehrstechnische Woche of March 9, 1927, it would mean a reduction of 33 per cent in the transport of coal if these proposals were put into effect.

For its part the Institut für Konjunkturforschung (a branch of the Statistical Office of the Reich), in a recent study, is of the opinion that railway traffic cannot increase by more than 5 per cent between 1927 and 1932 in view of the various difficulties mentioned above.

This estimate has been considered too pessimistic by certain circles who are of the opinion that, although heavy losses may result from the above-mentioned causes, sufficient attention has not been given to other circumstances which are likely to compensate such losses. Increase of population and of consumption, the probable development of industrial and agricultural output stimulated by technical progress on a large scale are likely (it is suggested) to contribute as in the past to an increase in goods traffic.

Nevertheless, and for the reasons already given, it is to be expected that this branch of railway traffic will develop at a slower rate in the years to come than was the case before the war, and it is clear that the Company will have to follow closely every symptom bearing on the future evolution of transports, in order to obtain useful information for the conduct of its finances. A too optimistic view of the subject might for example lead the Company to embark on capital expenditure which at a later date might prove to be insufficiently remunerative.

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Passenger Traffic.

Development of Traffic.

In my previous report I gave the provisional traffic results for the first eight months of 1927. I would again draw attention to the fact that the movement of passengers, which was practically equal to that in 1926 during the opening months of the year, increased afterwards and was specially marked during the summer holidays. For the period May-December 1927 there was an increase in the number of passenger-kilometers of 7.6 per cent as compared with 1926, but this increase only amounted to 2.5 per cent for the period January-April.

The final statistics for 1927 give the following figures:

Years	1927	1926	Increase in 1927 as compared with 1926
			per cent
Receipts in 1000 ℛ.ℳ	1,379,572	1,320,175	+ 4.5
Passengers transported in thousands	1,909,236	1,819,412	+ 4.9
Passenger - kilometers in thousands	45,547,898	42,922,387	+ 6.1
Mean distance of transport in km.	23.86	23.59	+ 1.1

Accordingly, there has been an increase of traffic of 6.1 per cent expressed in passenger-kilometers for 1927 as compared with 1926. It would however represent an increase of 52.6 per cent for the receipts and 24.5 per cent for the passenger-kilometers as compared with 1913 (system reduced to present frontiers).

The following table gives a comparison between the provisional data for 1928 and the data for 1927 insofar as passenger traffic is concerned in the opening months of the present year. It can be seen that the movement of passengers is at present satisfactory.

	Receipts		Increase in 1928 as compared with 1927	Passenger-kilometers		Increase in 1928 as compared with 1927
	1928	1927		1928	1927	
	in thousands of ℛ.ℳ		per cent	in millions		per cent
January	97,307	91,360	+ 6.5	3,342.5	3,130.9	+ 6.8
February	89,145	81,318	+ 9.6	3,054.2	2,777.5	+ 10.0
March	104,125	96,588	+ 7.8	3,528.2	3,258.4	+ 8.3
April	119,234	113,346	+ 5.2	4,068.5	3,765.6	+ 8.0

The receipts from passenger and baggage traffic amounted to 1,379.6 millions in 1927 or an increase of 4.5 per cent as compared with 1926. This figure is less than the increase in the number of passenger kilometers of 6.1 per cent. The reason may be attributed to the progressive preference for the cheaper classes and to the increase in the number of journeys at reduced fares. As the following table shows, whereas the percentages of passenger-kilometers for the 2nd and 3rd class have decreased, that for the 4th class increases each year:

	1913 per cent	1925 per cent	1926 per cent	1927 per cent
1st class	0.90	0.39	0.40	0.44
2nd „	10.09	7.23	6.54	6.09
3rd „	44.30	34.30	33.58	31.56
4th „	44.71	58.08	59.48	61.91

The movement towards cheaper classes is still more marked if the traffic of the Metropolitan and Suburban lines of Berlin and Hamburg is deducted from the total traffic. In this case, for every 100 passengers there were to be found in the 4th class 59.45 in 1913, 81.69 in 1926 and 83.42 in 1927; for every 100 marks receipts 36.25 marks were derived from the 4th class in 1913, 51.09 marks in 1926 and 53.00 marks in 1927.

This movement, the causes of which I indicated in my previous reports, has caused the Reichsbahn a loss in receipts since 1924 which may be put at 30 million marks per annum. It is thought that the contemplated reform to a two class system, to which I shall refer at length, may increase the number of possengers using the higher classes.

The number of passenger-kilometers at reduced fares as compared with the total has increased from 35.68 per cent in 1926 to 38.71 per cent in 1927.

The mean distance for passenger traffic on the whole railway system was 23.86 km. in 1927. This distance shows a tendency to increase slowly every year; if the traffic on the Metropolitan and Suburban lines of Berlin and Hamburg is deducted from the total traffic, the average figures are as follows: for 1925, 26.40 km.; for 1926, 27.42 km., and for 1927, 27.78 km.

A new time table was introduced on May 15, 1928. It includes important improvements in home and international connections. New sleeping-car connections have been introduced on the one hand between Berlin and Constantinople and between Berlin and Athens, and on the other hand between Ostend and Constantinople via Cologne–Nuremberg connecting with the Simplon-Orient–Express. New express trains are being run to connect Cologne–Ostend–London, Berlin–Königsberg and Berlin–Altona, whilst a new express composed entirely of first and second class saloon cars is being run between the Hook of Holland, Amsterdam, Basle and Lucerne. The latter train, which traverses the most picturesque portion of Germany and follows the Rhine, has received the name "Rheingold".

The speed of the express trains was increased in 1928 upon the application of the new time table, as the following figures show:

	Average speed of express trains		Speed of fastest train		
	1927	1928	1914	1927	1928
	kilometers		kilometers		
Berlin-Frankfort via Erfurt	62.6	66.6	76.0	71.2	77.5
Berlin-Cologne via Essen	63.2	65.0	71.0	72.9	76.2
Berlin-Hamburg	70.5	75.2	89.0	82.0	86.1

The increased traffic in 1927 has led to an increase in the distances covered by the trains.

To sum up, a comparison with 1913 shows that the number of train-kilometers has fallen by 14.7 per cent in 1927 whilst the number of passenger-kilometers has increased by 24.5 per cent. These figures illustrate the progress accomplished by the Reichsbahn in its method of operating the lines.

Development of Tariffs.

There has been no change in passenger tariffs since the increase on May 1, 1925. In my previous report I referred to the facilities introduced in 1927 for ordinary monthly season tickets for optional routes and for large party journeys. As from January 1, 1928, the Company has granted a reduction of 50 per cent on the normal prices of 3rd and 4th class tickets to blind persons travelling in the exercise of their professions. New international passenger tariffs have been introduced between Great Britain and Holland on the one hand and between Poland and the Baltic States on the other, and also beween Great Britain and Germany via Tilbury-Dunkirk.

The receipts per passenger-kilometer for the whole of the traffic have fallen from 2.97 pfennigs in 1926 to 2.92 pfennigs in 1927, due to the preference of travellers for the cheaper classes to which I have already referred.

In 1927 the receipts per passenger-kilometer amounted to 3.76 pfennigs for journeys at full fare, and to 1.60 pfennigs for journeys at reduced fare; the increase as compared with 1913 is 38.7 per cent in the former case and 25 per cent in the latter. In the aggregate, including baggage and incidental receipts, the average yield per passenger-kilometer amounted to 3.03 pfennigs in 1927, an increase of 22.7 per cent as compared with 1913.

Including the tax, the price per passenger-kilometer, for journeys at full fare and reduced fare combined, was in 1927 about 33 per cent higher than in 1913. This advance is less than the rise in the cost of living, the index figure of which was 50.7 per cent in April.

Proposed increase of Tariff rates.

At the beginning of my report I referred to the fact that the Company is obliged to increase its rates in order to obtain surplus receipts of 250 millions to meet its increased expenditures.

It has judged it advisable to distribute this amount over passenger and goods traffic, and to obtain 195 millions from increased goods rates and 55 millions from increased passenger fares. Competitive tariffs will not be affected, as the very important revenues derived from them might be lost, and the remaining traffic would have to bear still heavier charges.

I shall refer later to the increase in goods rates. Turning to passenger tariffs, the Company has considered two methods:

The first method would consist in a general increase of the rates of all classes. In spite of its simplicity, this solution would however present some objections; it would in practice help to increase the movement of passengers towards the cheaper classes and the trains for which no supplementary charge is collected. Moreover the loss of receipts due to the movement of passengers to automobile transport, which was calculated in 1927 to amount to approximately 100 millions per annum, would increase very considerably. The increasing competition from aeroplanes, which even now is responsible for a loss of receipts estimated at several millions, must also be taken into account.

The Company therefore is in favour of a second solution which consists in the application of a certain number of tariff increases combined with a reform of the present system of classes.

Germany, with Poland and Rumania, is the only country in Europe with four passenger classes; the question of a reduction in this number has been under discussion for years. The four class system was justifiable so long as passengers were offered advantages in the several classes corresponding to the difference in the price of the fare. But the fourth class, which formerly provided practically nothing but standing room and was only to be found on short distance journeys, now offers almost the same advantages as the third class, although the price of the latter is 52 per cent higher. This applies not only to the furnishings of the cars but also to the speed of the trains carrying fourth class coaches. Third class passengers are therefore passing over to the fourth class in ever increasing numbers, and from the express trains to the speeded-up passenger trains (beschleunigte Personenzüge) on which no supplements are charged. It is interesting to note that express trains are not used to any great extent in Germany. In 1926 for example, out of 1000 passengers, 23.6 travelled on express trains, 11.5 on high-speed trains (Eilzüge), 25.8 on speeded-up passenger trains (beschleunigte Personenzüge) and 939.1 on slow trains (Personenzüge).

There is a further objection to the four-class system. As the difference between the rates of one class and another is approximately 50 per cent, the first and second class fares are relatively high. The relation between the prices of the most expensive class and those of the cheapest class in Germany is 3.3 whereas this figure varies between 2 and 2.50 in the other European countries. The very high price of the first and second class encourages passengers to choose the cheaper classes and to travel by other means of transport.

To overcome these difficulties, the Company is considering the reform of the system of four classes to be applied simultaneously with a rise in tariff rates. The third and fourth classes are to be merged into one and only two classes will in principle exist in future, a wooden class and an upholstered class corresponding to

the present second class. The first class is to be run as a luxury class on the international trains, on some main line expresses and on the sleeping-car trains.

The kilometer rates of the new classes, beginning with the cheapest class will be in the proportion of 1 : 1.5 : 2.5. The prices of the first and second class will thus be appreciably reduced. The loss of receipts as a result of the latter measure and the suppression of the third class is to be balanced by an increase in the fares for the wooden class, by a fresh grading of the supplements for express and high-speed trains and finally by the return of travellers to the higher classes and more rapid trains which it is anticipated will occur. This reform has, however, to procure additional receipts of 55 millions. The kilometer rate of the wooden class would therefore have to be increased by 12 per cent as compared with the present price of the fourth class, but it would nevertheless be 26 per cent cheaper than the present price of the third class. The rates for the luxury and upholstered classes would be reduced by 13.9 per cent and 25.3 per cent respectively as compared with the rates of the 1st and 2nd classes.

The new tariff would form the basis for calculating the prices of all categories of trains; supplements calculated according to zone would continue to be charged for transport on the express trains. From a tariff point of view three main classes of trains would exist in the future: express, high-speed and slow trains, composed of two classes—one wooden and one upholstered. The speeded-up passenger trains (beschleunigte Personenzüge) would be suppressed. The supplements at present charged for the express trains would be doubled and supplements equivalent to half the price charged for the use of the express trains would be levied on the high-speed trains (Eilzüge) which are at present exempt. A fourth and fifth zone would be introduced in connection with the supplements to be charged for these two classes of train. A comparison between the kilometer rates and supplements enforced today and those which it is desired to introduce will be found in Annex X.

If the system of classes on the passenger trains is applied according to the principles I have briefly outlined, it is expected that the Company will procure additional receipts amounting to 64 million marks. This figure would be reduced however to 55 millions for it is not intended to include the season tickets in the increase to be applied to the fourth class, so as to avoid the imposition of any fresh charge on the employees and workmen who use this class of ticket.

Insofar as journeys with ordinary tickets in the wooden class of slow trains are concerned, it should be noted that the increase in price would not exceed 10 pfennigs for the average distance covered by such journeys, i. e. 28 kilometers.

The Company expects to derive the following advantages from this reform.

In the first instance it is anticipated that the introduction of a two class system will not only put a stop to the movement towards the cheaper classes, but also encourage passengers to travel in the more comfortable classes. It is expected that some of those who at present use the third class will adopt the new upholstered class because of the small difference in price, i. e. 5.6 pfennigs as against 5.0 pfennigs. On the other hand the reduction in the price of express train journeys will attract to these trains the passengers of the "Eilzüge" and "beschleunigte Personenzüge".

It is matter of public knowledge that the prices for transport by aeroplane and automobile correspond closely to the first and second class railway fares. A reduction of these rates might therefore arrest the movement of persons using these classes towards other means of transport. It is hoped that the reform of the system of classification coupled with reduced rates for the higher classes will produce a general increase in traffic, notably in respect of long distance runs in express trains, for which the prices would be appreciably reduced.

The reduction in the number of classes would be advantageous for those responsible for station service and the making up of trains, and would permit of a better utilisation of seats. Moreover, the construction of coaches would be simplified and repairs made easier; the movement towards rationalisation in the services of the Reichsbahn would thus have advanced a further stage. This reform in the number of classes carried is not expected to give rise to any very great expenditure insofar as the rolling stock is concerned. The second class coaches which are at present very little used would, it is believed, suffice for the new traffic requirements. Finally, there would be no need to transform the fourth class coaches, for a large number of these coaches has already been fitted in a manner closely corresponding to the third class coaches.

The Reichsbahn has submitted to the Transport Minister for approval and choice the two propositions discussed above, namely a uniform increase in passenger rates, or the introduction of a two class system accompanied by a slight increase in the rate for the lowest class.

In the choice of the solution to be applied, it will clearly be necessary closely to consider the effects which the new tariff measures are likely to have on the public, bearing in mind the very slow development of passenger traffic of recent years and the nature of this traffic which reacts very quickly to variations in transport rates.

Transport Service in Berlin.

At the beginning of October the Stadtbahn and certain suburban lines connected with it will be operated by electricity. Subsequently as the new electric rolling stock is delivered, electric traction will also be introduced on the circular line (Ringbahn). The Company has expended very large sums on the electrification of the Berlin

system, an account of which is given in a special section of this report. But electrification cannot prove profitable without a very frequent train service. It is therefore of interest to devote attention to the development of traffic on the Berlin urban and suburban lines.

The decline of traffic ascertained year by year since 1924 continued during the first months of 1927. For the period January—April 1927 the number of passengers transported decreased by 9.3 per cent as compared with 1926. But from May onwards the traffic began to recover. For the period May—December the number of passengers transported shows an increase of 6.9 per cent as compared with 1926.

Below may be found the final results for the whole of 1927 compared with those of the preceding years:

Years	1924	1925	1926	1927	1927 increase (+) as compared with 1926
					per cent
Passengers transported in thousands	468,311	397,749	354,156	358,872	+ 1.3
Receipts in thousands of RM. .	61,217	69,804	64,590	64,673	—

The growth of passenger traffic on the Berlin urban and suburban lines since the summer of 1927 is due on the one hand to the increase of traffic throughout the railway system, and on the other hand to certain changes made in the fares of the Reichsbahn and of the rival transport undertakings in the city of Berlin (tramways, motor buses, underground).

As mentioned by me in my previous report, the latter undertakings adopted a uniform fare of 20 Pf. on March 15, 1927 whereas on the Reichsbahn the fare within the city is only 15 Pf. On the other hand since September 1 the Company has reduced fares for so-called "Eckverkehr" traffic (a journey from a station on the Ringbahn or Stadtbahn to a station within the first zone on the suburban lines) and the 15 Pf. fare has been extended on the suburban lines in order to compete with the municipal transport undertakings.

As a result no doubt of these tariff measures the number of passengers transported during the period September-December 1927 increased by 9.7 per cent as compared with 1926, while receipts increased by only 2.6 per cent.

The position in regard to traffic continued to be very satisfactory during the first months of 1928: according to provisional statistics for the period January-April, the number of passengers transported increased by 11.5 per cent as compared with 1927.

The uniform fare in force on the Berlin transport undertakings entitles ticket holders to change from one means of transport to another. With a view to assisting the efforts of the municipality

towards unification of transport undertakings throughout, the Company on January 1, 1928 introduced a ticket entitling the holder to travel on the urban and suburban lines (first section) of the Reichsbahn and to change on to other means of transport. The price of this ticket is fixed at 30 Pf., the receipts therefrom being divided equally between the Company and the city of Berlin. The number of passengers making use of these tickets was approximately 500,000 in each direction during the first quarter of the year.

From the above it will be seen that by electrification and the adoption of the various tariff measures referred to, the Company has done its utmost to improve conditions on the Berlin urban and suburban lines. Nevertheless traffic on these lines is obviously influenced by the development of rival transport undertakings. Annex XI of this report furnished statistics showing the number of passengers transported and the corresponding receipts since 1924 by the various undertakings.

Whereas traffic on the Reichsbahn lines decreased by 23.3 per cent between 1924 and 1927, it increased during the same period by 47.1 per cent on the other combined means of transport. A comparison of the results for 1927 with those of 1926 reveals a decrease of 4.9 per cent in the number of passenger transported by the tramways; but it must be noted that when the uniform fare was introduced, fares on the tramways were raised from 15 to 20 Pf. The number of passengers transported on the underground and by the omnibus service increased on the other hand as compared with 1926 by 14.6 per cent and 38.8 per cent respectively. This increase of traffic is due in part to tariff reductions for long journeys introduced on March 15, 1927, but it is due more especially to the extension of bus and underground services undertaken by the city of Berlin in following the example set by the municipalities of other capitals.

Whereas the Reichsbahn had introduced no really important improvements on the Berlin urban and suburban system since 1907, the other combined transport services expended considerable sums during the last few years in developing their lines and increasing their rolling stock. Table 2 of Annex XI furnishes statistics showing the extension of the tram, omnibus and underground lines and the growth of their rolling stock park since 1924.

It appears of interest to me to reproduce at this point statistics of English origin, showing the number of journeys per head of the population in the principal capitals.

Years	1923	1924	1925	1926	1927
Berlin	284	313	362	353	379
Paris	393	407	411	399	390
London	420	440	463	467	483
New York.....	531	547	545	551	554

It will be observed that during the last few years traffic in the city of Berlin has increased far more rapidly than in the other big capitals, without however reaching the same level. It is therefore extremely probable that during the next few years passenger traffic in Berlin will increase still further. It is to be hoped that the urban and suburban lines of the Reichsbahn will be able to secure a large share in this increase, in view of the improvements which electric traction will introduce in the operation of the system.

Competition of Motor Traffic.

In my previous reports I have discussed the competition between motor traffic and the Railway both in Germany and other countries. I shall now merely give some information on the present position and also on the collaboration between the two means of transport which has to a certain extent been introduced.

The number of lorries and automobiles has increased rapidly during recent years; the figure was 193,000 in 1924 as compared with 369,000 in 1927, that is to say there has been an increase of 91 per cent. If we consider however that the number of automobiles as compared with the population is still low in Germany by comparison with the other European countries and the United States, and if we consider the progress made by the automobile industry of recent years notably in the matter of prices. it is to be expected that there will be a further development in the future. Consequently the competition with the railways both in the case of passenger and goods transport is destined to increase still further. The utilisation of motor lorries is specially advantageous in Germany owing to industrial concentration in certain districts such as the Ruhr and Saxony with the resulting short distance transport required. The motor car lines have also extended greatly throughout the country for the transport of passengers.

Among the motor services the Postal Administration ranks first. The following figures illustrate the progress made:

Years	Number of lines served	Length of lines served in km.	Distance covered by Post motor cars km.	Number of passengers transported
	at the end of the financial year			
1910[1]	—	1,234	2,230,000	1,537,000
1924[1]	583	10,547	10,100,000	8,507,000
1925[1]	1,241	23,848	26,100,000	24,818,000
1926[2]	1,482	28,275	38,200,000	36,100,000
1927[2]	1.670	31,516	47,300,000	48,500,000

[1] financial year from April 1 to March 31.
[2] calendar year.

The number of motor omnibuses increased from 130 in 1910 to 2,572 at the end of 1926 and 2,869 at the end of 1927.

Apart from the Postal Administration, the most important transport concern is the Kraftverkehr Deutschland G. m. b. H. which groups together 17 big companies. The following figures show the expansion of traffic obtained by these undertakings:

Year	Number of lines served		Length of lines served		Distance covered		Passengers transported	Number of motors at the end of the year	
	passengers	goods	passengers km.	goods km.	omnibuses millions of km.	lorries millions of km.	in millions	omnibuses	lorries
1926	—	—	—	—	18.80	7.20	32.30	748	—
1927	380	45	6,394	2,409	26.03	9.88	49.28	972	742

If we take into account the average number of cars per annum, we find that the distance covered during 1927 was 30,000 km per omnibus and 13,000 km per motor lorry.

The Reichsbahn concluded an agreement in March 1924 with the Kraftverkehr Deutschland G. m. b. H. for the purpose of eliminating unnecessary competition and to coordinate motor services for the transport of passengers and goods. The following figures show the results obtained by these joint services, which are entitled "Eisenbahnkraftwagenverkehr":

	Number of lines served	Passenger traffic		Goods traffic		Receipt	
		Distance covered by motor cars km.	Number of passengers	Distance covered by lorries km.	tons transported	passengers	goods
1925	27	82,962	112,298	334,370	98,769	70,008	495,592
1926	49	404,037	639,899	721,990	196,382	351,600	956,329
1927	63	801,609	1,516,615	1,126,908	317,512	732,573	1,652,634

The total length of the lines jointly exploited at December 31, 1927, amounted to 1,572 km, 1,194 km being for goods traffic and 378 km for passenger traffic.

In spite of the increased traffic noted in 1927 the joint automobile concerns have not developed to the extent anticipated. The reason for this is that the companies included in the Kraftverkehr Deutschland G. m. b. H. have not the necessary funds to open new lines. On the other hand the Company has not sufficient influence over these concerns.

Following the suggestions of a committee appointed in 1927 to examine the question of competition between motor services and the Railway, the Reichsbahn decided to collaborate more closely with the motor companies by obtaining financial holdings in them. At the beginning this collaboration is to be limited to a few of

the principal companies in industrial districts where the use of motor lorries is widespread. In collaboration with the Transport Ministry the Company has already been able to procure the majority of the shares of the "Rheinische Verkehrsgesellschaft" of Cologne, and negotiations are pending with another concern for the same purpose. The programme of collaboration with the two companies as prepared by the Reichsbahn prescribes the opening of new motor lines, notably for goods traffic. It is not merely a question of lines intended to bring traffic to the Railway, but also of lines running parallel with the Railway on which it will be possible to reduce the time of transport as compared with railway transport by as much as 35 hours. Provision is also being made for the formation of lorry parks in the most important traffic centres, from which lorries can be hired to interested parties for the transport of goods.

The cooperation of the Reich in the motor transport companies has the following object: methodical organisation of motor transport in collaboration with the Railway for the purpose of reconciling the interests of consignors and also of improving transport and reducing prices in the interests of the public.

I would add that the Reich has also a special interest in the creation of certain motor lines to replace railways which have been demanded by the public for many years. Such railway sections could not be built by the Company owing to their doubtful future and moreover in the last instance the Reich would have to bear the cost of their construction.

The efforts of the Reichsbahn to come to an agreement with the Postal Administration and the Kraftverkehr Deutschland G. m. b. H. have been imitated by the private railway companies. The latter have concluded agreements with both the undertakings in question for the purpose of eliminating competition. The Postal Administration and the Kraftverkehr Deutschland G. m. b. H. have in their turn undertaken not to open motor lines for passenger transport likely to give rise to competition between their respective organisations.

Apart from participating in the motor companies, the Reichsbahn has continued to grant a number of exceptional rates, known as "K" rates, for the purpose of recovering railway transport which has emigrated to motor lorries. These rates which are directed chiefly against competition on the part of occasional transport, seem to have given satisfactory results.

Air Transport.

Commercial aviation, as the result of improvements introduced, has to-day taken a place in the general transport system, in particular for international transport. It has been very widely developed in Germany since the war, thanks to the policy of Government

subsidies and to the geographical position of the country on the main arteries of European traffic. It is thus important for the railway carefully to follow the development of this new means of transport without any thought of seeking to compete with it. The Company, as we shall see below, has already succeeded in establishing collaboration with the aviation companies in the interests of the public.

The development of air transport services in Germany is shown by the following figures which give comparative results for 1925, 1926 and 1927 on the lines exploited by the various companies:

Years	1925	1926	1927	1927 as compared with 1926 per cent
Kilometers flown	4,949,661	6,541,159	9,969,995	+ 52.4
Passengers transported	55,185	84,594	151,091	+ 78.6
Passenger-kilometers	10,603,035	14,639,151	26,953,998	+ 84.1
Tons transported goods and baggage	521	1,057	2,326	+ 120
Tons transported postal service	287	551	827	+ 50.1
Ton-kilometers	178,328	311,266	681,661	+ 118.9

It should be noted that in the above statistics the passengers and tons transported have been counted afresh for each place of call. But examination of the actual number of passengers conveyed by the Luft-Hansa, which exploits 94 per cent of the regular lines, shows that the number rose from 56,268 in 1926 to 102,681 in 1927, an increase of 82.5 per cent. The tons transported increased for goods and baggage from 644 to 1,463 tons and for the postal service from 302 to 480 tons. The importance of the development of aviation is clearly apparent if it is considered that the number of passengers conveyed by air in 1927 was 1/7th of the number of 1st class passengers of the Reichsbahn.

In 1927 about 50 per cent of the seats available were used; out of 304,046 seats offered, 151,091 were occupied. On the other hand, out of 29,473 flights fixed in the time-table, 26,659 were actually carried out, giving a coefficient of regularity of 90 per cent.

In Germany aviation is subsidised not only by the Reich, but also by the Federal States, the communes and the chambers of commerce. For this reason many lines have been started for internal connections only a short distance apart, the results of which do not in general appear to be satisfactory, no doubt because they offer no marked advantages over the Railway for the passengers conveyed. The Luft Hansa is accordingly now concentrating on the main lines in Germany and more particularly on the international lines which are most frequented, while avoiding as far as possible intermediate calls, so as to reduce the length of the journey. For the summer to the autumn of 1928 therefore the following special express lines have been started : London express (Berlin–London), Paris express

(Berlin–Paris), Main express (Berlin–Frankfort), Swiss express (Berlin–Zurich), Isar express (Berlin–Munich), Adriatic express (Berlin–Vienna–Venice–Rome), Eastern express (Berlin–Moscow) and Alster express (Berlin–Hamburg).

The advantages of travelling by air are especially apparent for certain international lines. Leaving London in the morning, it is possible to reach Moscow by 3 p. m. on the following day by using the night service from Berlin. The 2,100 km. which separate Berlin from Madrid can be flown in two days with a night spent in Geneva. The institution of the non-stop line between Berlin and Vienna makes it possible to reach Rome via Venice on the same day with a journey of 11 hours instead of 36 by rail. In regard to communications between Germany and Italy, I may mention the trial route between Munich and Milan which for the time being is reserved for the postal service and goods.

The marking out of routes for night flights has been begun by means of lights. Night services have been organised in this way between Berlin and Königsberg and between Berlin and Hanover: this latter service will soon be extended as far as Cologne. The importance of this innovation is specially apparent for long distances. By doing away with the necessity for stopping at night, the inferiority of the aeroplane in comparison with the train is avoided for air passengers.

The organisation of night flights is also extremely important for the transport of goods. The Luft Hansa has recently inaugurated two night lines (Berlin–Hanover–Amsterdam–London and Berlin–Hanover–Essen–Cologne–Paris or London) which serve exclusively for the transport of goods. It is expected that these lines will give a great impetus to combined transport by rail and by air. Consignments reaching the stations of Berlin, Hanover, Essen and

Route	Passengers				Goods	
	Fare by air	1st class fare by express train	Journey by air	Journey by express train	Price by air per 100 kgs.	Price for express consignments by rail per 100 kgs.
	in marks		hours		in marks	
Berlin-Munich .	85[1])	83.00[2])	4.20	9.00	80	28
Berlin-Dresden	30	25.60	1.15	3.17	25	12
Berlin-Breslau	42	42 40	2.15	4.19	45	18
Berlin-Königsberg .	90	71.00	4.40	8.10	100	28
Berlin-Frankfort	85[1])	71.00[2])	3.15	6.55	70	26
Berlin-Cologne	80[1])	69.00	3.45	8.02	75	26
Berlin-Paris ..	160[1])	106.50	7.15	19.00	155	—
Berlin-London	190[1])	137.20	6.55	20.00	170	—
Berlin-Vienna .	135[1])	85.00	3.50	13.30	100	42
Berlin-Zurich .	150[1])	115.00	5.15	15.12	115	37
Berlin-Moscow	300[1])	185.00	16.00	42.00	400	—

(1) Fare for express air route
(2) Fare for super-express trains (F.D.)

Cologne in the evening or at night are delivered in this way to the consignees in London or Paris about mid-day of the following day.

Below will be found a comparison between the prices charged for the most important routes by the Luft Hansa and by the railway for the conveyance of passengers and goods.

On the most important lines leaving Berlin, the fare by air as compared with the 1st class fare by express train is about 18 per cent higher for internal routes and about 49 per cent higher for international routes. This difference is reduced to an average of 20 per cent if it is considered that for long railway journeys the sleeping car supplement is added to the actual cost of transport. During the winter season the cost of travel by air is approximately the same, at least for routes in Germany, as the first class fare by express train.

For the transport of goods the prices charged by the Luft Hansa are about three times higher than those for express consignments by the Reichsbahn.

It should be observed that in Germany as elsewhere the rates charged by commercial aviation fall far short of the cost of transport. Thus the operating payments of the Luft Hansa amounted in 1926, not including amortisation or general costs, to 13.8 millions, while in 1927 the figure was 21.7 millions. Traffic receipts on the other hand were 3.2 millions in 1926 and 6.0 millions in 1927. The Luft Hansa received from the Reich and other public bodies subsidies totalling 14.2 millions in 1926 and 23.6 millions in 1927. For 1928 the budget estimates of the Reich make provision for a reduction of 1.9 millions in the subsidies accorded to air traffic.

It is however to be expected that the profit earning capacity of commercial aviation will improve. The net cost of air transport, which has already fallen during the last few years, is likely to drop still more owing to the employment of big aeroplanes and the increase in the cargo capacity as compared with the total weight. It is natural to expect further great technical progress for a means of transport so recently instituted, not only in regard to cost prices, but also in regard to safety—a still more important point.

The Reichsbahn, acting in the general interests of traffic, has concluded agreements with the Luft Hansa with a view to coordinating transport by rail and by air. Thus, as indicated in one of my previous reports, since 1926 special tickets for combined travel by rail and by air have been issued by travel bureaux. In addition, air passengers may consign their luggage by rail without being obliged to buy a ticket from the Company. Negotiations are now proceeding between the Reichsbahn and the Luft Hansa with a view to allowing air passengers, who interrupt their journey owing to a forced landing or for other reasons, to travel 1st class by rail, with due allowance for the cost of the air ticket.

In connection with goods traffic, the Company on August 20, 1927, concluded with the Luft Hansa an agreement for combined transport by rail and by air.

This agreement makes it possible to convey goods delivered with a way-bill for air transport either by rail or by air, without requiring the intervention of the consignor for the transfer from one system of transport to the other. It should be noted that the documents relating to the transport by rail are made out by the consigning station in the name of the Luft Hansa, so that the Company is liable to the Luft Hansa only.

The rate charged for combined transport is obtained by joining the Luft Hansa rate for the distance travelled by air to the express rate for the distance travelled by rail, with the addition of a transshipment charge.

The combined traffic known as "Fleiverkehr" came into force on October 1, 1927. So far the results have not been very large; but a certain development is expected, especially in the traffic with foreign countries, owing to the creation of new air routes destined solely for the transport of goods.

I may add that the Swiss Federal railways have concluded with the "Belair" air company a contract similar to that agreed upon between the Reichsbahn and the Luft Hansa for combined transport by rail and by air. In this case also, transport is effected in the name of the air companies, which alone are responsible to the consignor. It should be noted that in Switzerland combined transport by rail and air is only allowed for traffic coming from or destined for foreign countries, or for transit traffic.

The contract concluded in May 1926 by the Swedish railways with the "Aktiebolaget Aerotransport" for combined transport by rail and by air is of a different nature. Here goods are conveyed by means of a single way-bill drawn up on a special model, but with separate liability for the journey by air and the journey by rail.

* * *

Goods Traffic.

Development of Traffic.

The traffic results of the first six months of 1927, the final figures of which were given in my previous Report, were very satisfactory: the tonnage transported increased by 13.4 per cent as compared with 1925 and by 24.3 per cent as compared with 1926. The goods traffic continued to grow in a satisfactory manner during the subsequent months: viz. for the period July-December the tonnage transported shows a further increase of 19.2 per cent by comparison with 1925 and of 5.5 per cent by comparison with 1926. The latter increase in comparison with 1926 seems smaller than that of the first six months of the year, for the reason that from the summer of 1926 onwards traffic increased to an exceptional degree

through the transport of coal stimulated by the British coal stoppage.

Taken as a whole the final results for 1927 compare with those of 1925 and 1926 as follows:

Year	1925	1926	1927	Percentage of increase (+) or decrease (—) 1927 as compared with	
				1925	1926
Receipts (in 1000 ℛ.ℳ)	2,868,713	2,830,619	3,226,401	+ 12.5	+ 14.0
Tons transported (in thousands)	373,009	381,868	434,063	+ 16.4	+ 13.7
Ton-kilometers (in thousands)	55,965,403	59,016,334	64,887,715	+ 15.9	+ 9.9
Mean distance of transport in kilometers	150.04	154.55	149.49	— 0.4	— 3.3

In 1927 as compared with 1926 there was therefore an increase in the number of tons transported of 13.7 per cent, and in the number of ton-kilometers of 9.9 per cent. In the case of goods other than coal, the volume of transports in 1927 was 274,386,104 tons, being an increase of 24.5 per cent by comparison with 1926.

It is to be noted that the mean distance of transport tends to decline year by year, having fallen from 156.0 km. in 1924 to 149.49 km. in 1927. The increase in 1926 is due to exceptional transports of coal over long distances. The decline in the mean distance of transport would appear to be due to the fact that industries are constantly drawing nearer to the the sources of their raw materials and to the river ports, as well as to the fact that transport routes are gradually resuming their pre-war lines. It should be recalled that in 1913 the mean distance of transport was only 128 km.

A comparison of the 1927 results with those of 1913 covering the system within its present frontiers, reveals an increase of 26.2 per cent in the number of ton-kilometers and an increase of 8.8 per cent in the number of tons transported. For the first time since the stabilisation the tonnage transported has exceeded that of 1913.

Despite the reduced tariffs applied as from August 1 the receipts from goods traffic in 1927 totalled 3,226 millions, being an increase of 14 per cent by comparison with 1926. Compared with the 1913 receipts (for the system within its present frontiers) they show an increase of 67.4 per cent.

Annex XII contains a graph of traffic in 1925, 1926 and 1927. The curves for 1927 show the very satisfactory development of traffic in that year, as well as a pronounced similarity with the 1925 curves.

The large increase of traffic in 1927 was one of the consequences of Germany's rapid economic recovery from 1926 onwards. The economic situation now appears to be almost stable. During the first few months of 1928 the statistics of production were in general higher than those of 1927. Nevertheless in April the output of coal and steel shows a decline by comparison with last year and the position of certain industries, in particular the textile and building trades, does not appear to be satisfactory. Although the member of unemployed in Germany shows an appreciable decline as compared with 1927, there are signs of a certain falling off in economic activity. This state of affairs is bound to have an effect on the traffic of the Company.

Below will be found the provisional results of goods traffic up to March 1928 compared with those of 1927.

Month	Provisional receipts			Tons transported		
	1928	1927	Percentage of increase 1928 as compared with 1927	1928	1927	Percentage of increase 1928 as compared with 1927
	in million *R.M*			in million tons		
January	260,569	232,180	+ 12.2	34,786	32 184	+ 8.1
February	258,464	235,743	+ 9.6	35,374	32,509	+ 8.8
March	288,195	269,699	+ 7.0	39,696	37,339	+ 6.3
April	242,320	257,587	— 5.9	—	—	—

Following the tendency to which I have already referred, the mean distance of transport declined considerably by comparison with the corresponding months of 1927; similarly the number of ton-kilometers in the first few months of the current year was slightly below that of 1927.

The following table shows the average number of cars loaded per working day:

Month	Total number of cars loaded			Cars loaded in the principal coal-fields		
	1928	1927	Percentage of increase 1928 as compared with 1927	1928	1927	Percentage of increase 1928 as compared with 1927
January ..	136,174	128,627	+ 5.9	47,156	45,905	+ 2.7
February .	143,360	135,218	+ 6.0	45,358	44,798	+ 1.2
March ...	150,698	144,012	+ 4.6	44,523	42,339	+ 5.1
April	149,511	145,389	+ 2.8	43,801	42,057	+ 4.1

The above data show that on the whole the goods traffic continued to be fairly satisfactory in the first few months of the

present year. Nevertheless the traffic statistics tend increasingly to approach those of 1927. In the first fortnight of May the number of cars loaded even fell below the figure for last year. As things are at present, it is not possible to forecast the results of the 1928 traffic, but there is every reason to think that, if any further progress is made, it will not compare with the progress of previous years.

Some details as to the results of traffic in 1927 now appear called for. I shall begin with coal transports, which are of special importance to the German railway system. The following table gives a comparison of coal transports in 1927 and 1926:

Year	Tonnage transported in thousands			Ton-km	Receipts
	Coal	Lignite	Total	in 1 000	in 1 000 RM.
1925	95,592	48,800	144,392	19,567,879	718,525
1926	113,405	47,995	161,400	25,975,827	810,359
1927	106,847	52,830	159,677	22,675,360	742,252
1927 in comparison with 1926	— 5.8 per cent	+ 10.0 per cent	— 1.1 per cent	— 12.7 per cent	— 8.4 per cent

From the above it can be seen that the tonnage transported in 1927 was very much the same as in 1926. The increase of internal transports, due to the larger consumption of coal in Germany, served to offset the decline of the special transports for the export trade which flourished during the British coal stoppage in 1926. The decline of these special transports, which usually covered a long distance, resulted in an appreciable reduction in the mean distance of transport in 1927; it is for this reason that the number of ton-kilometers and the volume of receipts have decreased by comparison with 1926. The steady increase of lignite transports will be noted as a result of the growing consumption of lignite in Germany every year, both for domestic and industrial purposes.

The position with regard to transport in the chief German coalfields is shown by the figures of the following table, which shows the average number of cars loaded per working day in the various coalfields in 1925, 1926 and 1927.

Coalfield	Average number of cars loaded per working day				
	1925	1926	1927	Percentage of increase in 1927 as compared with: 1925	1926
Ruhr	24,364	28,320	28,367	+ 16.4	—
Upper Silesia	4,225	5,272	5,664	+ 34.0	+ 7.4
Lower Silesia	1,442	1,451	1,502	+ 4.2	+ 3.5
Central Germany	8,867	8,569	9.232	+ 4.1	+ 7.7

Transports of coal for the Company's service, which amounted to 12,490,140 tons in 1926, totalled 14,189,436 tons in 1927. The increase is due partly to the fact that the Company was obliged last year to reconstitute its stocks which had considerably declined towards the end of 1926.

Annex XIII shows the distribution of tonnage transported in 1926 and 1927 according to its destination and origin. It will be noted that the increase in 1927 by comparison with 1926 is largely confined to the internal traffic of the Reichsbahn. As regards foreign traffic, there is a considerable increase in transports of foreign provenance but a decrease in transports destined for foreign countries and in transit traffic. In 1927 Germany's export tonnage, including Reparation tonnage, declined by 19.9 per cent as compared with 1926, whereas the import tonnage increased by 57.3 per cent. The slight decrease of transit traffic in 1927 is due to the cessation of transports of Czecho-Slovak and Polish coal across Germany.

The service transports of the Company, including coal, totalled 54,981,882 tons in 1927 as against 56,677,821 tons in 1926.

The following table gives the statistics of transports of express goods, and of fast goods both in the form of separate packages and complete car-loads.

Year	Express goods		Fast goods (separate packages and complete car loads)	
	Tonnage	Receipts	Tonnage	Receipts
1925	660,436	47,194,772	4,800,919	116,373,354
1926	659,792	45,843,990	4,928,741	92,672,701
1927	745,910	54,137,965	5,393,911	114,112,671
1927 as compared with 1926	+ 13.0 per cent	+ 18.1 per cent	+ 9.4 per cent	+ 23.1 per cent

It will be noted that—whereas the tonnage of slow goods other than coal increased by 20.0 per cent in 1927 as compared with 1925, — the tonnage of express and fast goods increased by only 12.4 per cent. This appears to be due to the ever-increasing competition of motor transport, in particular as regards luxury commodities. I should add that the Post Office also runs an express goods service on its automobile lines.

The increase of traffic in 1927 resulted in an increase in the number of train-kilometers as compared with 1926. Below are given a few statistics on goods trains (not including service trains) for the years 1925, 1926 and 1927:

Year	1925	1926	1927	Percentage of increase 1927 as compared with 1926
Train-kilometers..	206,680,000	218,993,000	234,733,000	+ 7.2
Axle-kilometers of emply and loaded cars.....	15,745,272,000	17,208,186,000	18,737,322,000	+ 8.9
Average number of axles per train..	76	79	80	

The net load per loaded axle was 5.76 tons in 1927 as against 5.89 tons in 1926. The large transports of coal in 1926 allowed of a better utilisation of the carrying capacity of cars.

Development of Tariffs.

In my previous report I explained the reasons which led the Company to apply revised normal tariffs as from August 1, 1927, together with the principles underlying the revision. I would here recall briefly that prior to the above revision freight rates for finished goods, as compared with pre-war rates, were very much higher than the rates for raw materials. On the other hand the increase in transport charges as compared with 1913 was relatively much higher for short distances.

The object of the tariff revision of August 1, 1927, was to readjust these inequalities as much as possible and to adapt tariffs to existing economic conditions in Germany. Accordingly the basic rates for the high categories A, B, C and D, which are generally applied to finished or semi-manufactured goods, have been reduced. Simultaneously the consignment charge, which is added to the cost of transport properly so-called, and which before the revision was the same for all distances, has been reduced for distances up to 100 km. and for the categories A to E. In this way transport charges for short distances have been lowered without altering the scale of rates. The revision was completed by an appreciable reduction in charges for 10 ton consignments.

The measures applied to normal tariffs were gradually extended as from August 1 to the most important special tariffs.

The revision of normal tariffs together with its effect on special tariffs represents a saving on transport charges to the German economy which, allowing for the actual volume of traffic, must be in the neighbourhood of 80 million marks.

During the last six months the Company has continued to develop its tariff policy in the sphere of special tariffs, thus promoting traffic and favouring the business community.

With a view to increasing exports of German coal, the Company has introduced new special tariffs for coal from Upper and Lower Silesia and Saxony travelling to Czecho-Slovakia, and for coal

from the Rhenish-Westphalian area travelling to Hungary and Yugo-Slavia via the German Danube ports. The reduction afforded by these tariffs varies between 10 and 25 per cent.

During the first few months of the year, the Company amended the rates on coal destined for the coastal regions with a view to increasing German sales in competition with British coal, the import of which into Germany has been resumed since the termination of the stoppage in 1926. Accordingly from February onwards a rebate was granted of ℛℳ 2.40 and 1.90 per ton respectively for the transport of bunker coal for the North Sea and Baltic seaports. This rebate, which is added to the reduction provided for the coastal regions by tariffs AT 6e and AT 6f, is only granted where transports of bunker coal exceed the minimum tonnage liable to the application of the aforementioned tariffs. In addition the special tariffs for the transport of coal from the Lower and Upper Silesian coalfields to the port of Stettin were considerably reduced as from January 1, 1928.

At the beginning of March the Company introduced new special tariffs for coke from the Ruhr coalfields intended for the blast furnaces of Luxembourg, and for coal from the Aachen coalfield consigned to Lorraine. These tariffs, which are only applied to consignments passing through the frontier stations of Igel and Perl, are intended to compete with foreign lines running parallel to the Western frontier of Germany.

As regards goods other than coal I shall only mention the extension of the wine tariff to retail consignments, the reduction of the tariff on iron and steel products destined for East Prussia, the reduction of the tariff on imports of iron ore into Upper Silesia and the revision of the special tariffs on stones intended for the construction of roads.

During the last few months the Railway Company has actively pursued its policy of preferential tariffs for imports and exports through German seaports and across the frontiers. New special tariffs have been granted for imports of scrap-iron and steel, raw tobacco and unrefined borax, and for exports of malt and fluor-spar.

The revision of normal tariffs on August 1, 1927, led to changes in the most important special tariffs to seaports. A reduction varying in general between 2 and 9 per cent has been granted in the case of these tariffs, but it applies only to stations situated in areas competing with foreign seaports.

As from March 1, 1928, an important modification was effected in the special tariffs AT 35 for iron and steel products exported through German seaports. Despite the greater output of iron and steel in Germany in 1927, the tonnage transported as calculated by this tariff decreased by approximately 22,000 tons as compared with 1926. In 1926 only one-eighth of the total tonnage of the principal iron commodities exported from western Germany was transported by rail to the seaports. Exports of iron and steel wares from these districts tend increasingly to travel by foreign seaports, taking the direct water-route of the Rhine or else the combined rail and water route. In order to retain this traffic, the Company again

reduced by from 6 to 10 per cent the rates of special tariff AT 35 for iron goods of categories A to D: in the districts most exposed to competition from the foreign seaports the reduction as compared with the normal tariffs actually amounts to as much as 60 per cent. The above measure will entail a loss to the Company's gross receipts of about $1^1/_2$ million marks per annum. It is hoped nevertheless that this loss will be largely offset by increased transports to the port of Bremen.

As regards transit traffic across Germany, important changes have been made in the so-called SD tariffs. For example the rates of tariff SD 2 for traffic between the Swiss-German frontier stations and German seaports have been increased in the case of consignments destined for Scandinavia, the Baltic countries and Russia. In this connection I would mention that negotiations are proceeding between the German Railway Company and the French railways with a view to reducing competition on French and German lines parallel to the western frontier.

The Company has also modified the rates of tariff SD 6 for traffic between the Czech-German frontier stations and German seaports, by adapting these rates to the transport charges on lines terminating at the Adriatic ports.

In my previous reports I mentioned with reference to the tariff war between Trieste and Hamburg that a provisional agreement had been concluded towards the end of 1926 between the German Railway Company and the foreign railways concerned, with the object of suspending for one year the special competitive measures which placed an extremely heavy burden on the railways in question. This provisional agreement, which enabled the Company to effect a considerable increase in the tariffs for traffic between Czecho-Slovakia and Austria and the German seaports, expired on December 31, 1927. As the negotiations between the railway managements concerned for a definitive solution to the tariff war between Trieste and Hamburg have not yet been concluded, the provisional agreement has been prolonged for a further six months up to June 30, 1928.

In the course of the many conferences to which the negotations gave rise, the standpoints of the managements in question appeared to be more nearly reconciled. It is therefore to be hoped that an agreement will shortly be concluded, which will afford due consideration to the economic interests of the competing ports and also to the financial interests of the railways, which would be the first to suffer from a resumption of the tariff war.

New traffic regulations (Eisenbahnverkehrsordnung) have been drawn up by the Ministry of Transport in conjunction with the Company, with reference to the wishes expressed by industrial and commercial associations. The new regulations conform as far as possible with the terms of international law as embodied in the two new international conventions on goods traffic and passenger and baggage traffic concluded in Bern on October 23, 1924. It

should be noted however that the new German regulations have not adopted the provisions of the international conventions as regards the fixing of a general maximum sum for damages in respect of goods traffic and baggage. The provisions here adopted are thus more favourable than those of the international conventions.

The new traffic regulations have already been submitted to and accepted by the Reichseisenbahnrat. They will probably come into force on October 1, 1928.

The Company has endeavoured by the revision of normal tariffs in 1927 to satisfy the demands of various economic interests.

Nevertheless certain demands put forward in this connection and recognised as justified could not be met owing to the financial position of the Company. In order to satisfy these demands it is now proposed to grant for certain goods the following reductions:

a) For coal, reduction of the consignment charge from 11 Pf. to 9 Pf. per 100 kilograms.

The reduction of the transport charges for coal on these lines has the advantage of avoiding any modification of the competition between the different coalfields, as it effects an equal reduction of transport charges for all distances. Following the application of the proposed reduction, the coal rates will compare as follows with the 1914 rates.

Price in Pfennigs per 100 kg.

Km.	50	100	150	200	300	500
1914.....	18	29	40	51	73	105
after the reduction	24	39	54	69	99	127
percentage of increase in comparison with 1914..	33.3	34.5	35	35.3	35.6	21.0

For distances over 683 km. the rates would be equal to the pre-war charges. The reduction of the consignment charge is to be applied not only to the general tariff AT 6 but also to other special tariffs for coal; nevertheless it is not to be applied to special tariffs the rates of which are fixed according to the rates in force on competing foreign lines. The measure in question will involve the company in a loss of receipts amounting to 25 millions per annum.

b) For iron and steel products of categories A to D exported by the land frontiers a reduction of 20 per cent as compared with the normal category rates of July 1927.

As early as 1925 the standing committee on tariffs recommended the application of reduced tariffs for iron products exported via the land frontiers: similar reductions were in force before the war. I would add that in 1927 the Company granted similar facilities for exports of paper and glass and porcelain wares. The proposed reduction will entail a loss of 3.9 million marks to the Company.

c) For straw and hay a 15 per cent reduction in the tariffs of the normal category E.

Owing to their light weight, straw and hay are generally rated according to the relatively high tariff for 5-ton consignments, and are therefore rather heavily charged for as compared with the pre-war tariff and their sale prices. It is thought that the proposed reduction might increase transports over long distances and facilitate a more rational distribution of these products throughout German territory, thus reducing foreign imports.

The loss of receipts resulting from this measure is estimated at ℛℳ 1.9 millions per annum.

The Management of the Company recognised the economic advantages of the proposed tariff measures, but it was obliged to take into account the very large loss of receipts which they might involve —viz. a total of 30.8 millions per annum—as well as the fresh charges which the company has to meet in other directions. It was therefore decided that the reductions in question could be introduced only concurrently with a general increase of freight rates which is explained below.

Proposed increase of Tariffs.

Towards the end of the year the considerable increase of the charges imposed upon it obliged the Company, as was previously explained, to consider the necessity for a general increase of tariffs.

Since the creation of the Company in October 1924 there has been no increase of freight rates save in very exceptional cases. On the other hand the Company granted numerous reductions with a general application, viz. reductions on export and import, and for transports for certain specified districts such as Siegerland, Upper Silesia and East Prussia. The Company's tariff policy, which showed consideration for Germany's economic welfare, reached its climax with the revision of normal tariffs in August 1927. It should be recalled that the most important reductions effected since the end of 1926 in themselves entailed a loss of receipts which may be estimated at more than 100 millions annum.

The financial sacrifices made by the Company in the interests of the German economy are further illustrated by the continuous decline in the average receipts per ton-kilometer on commercial transports. The following figures show these receipts as from 1924:

Year	Average receipts per ton-kilometer (not including transport tax)	Percentage of increase as compared with 1913	Average receipts per ton-kilometer (including transport tax)	Percentage of increase as compared with 1913
	in Pfennigs		in Pfennigs	
1913	3.59	—	3.59	—
1924	5.35	49	5.64	57
1925	4.92	37	5.17	44
1926	4.59	28	4.81	31
1927	4.76	33	5.09	42

In 1926 receipts per ton-kilometer fell considerably owing to the exceptional increase of coal transports on which the tariffs are relatively low. As regards receipts per ton-kilometer in 1927, I would point out that the reduction of normal tariffs only partially affected these receipts as they did not come into force until August 1. But if the receipts per ton-kilometer for the period August-December are examined it will be found that they fell from 5.09 Pfennigs in 1925 to 4.80 in 1927, being a decrease of about 6 per cent.

Whereas freight rates as a whole have declined since 1925, the index figure of wholesale prices has risen fairly steadily from 134 in the middle of 1925 to 140 in April 1928. During the same period the index figure of the cost of living has risen from 138 to 150.7. It appears therefore that if the Company is obliged to raise its rates, this will only have the effect of adjusting transport charges to the general level of prices: a step which is in conformity with economic laws.

According to the scheme which the Company submitted to the Government for approval, the increase of freight rates should yield an additional 195 millions on the receipts from the transport of goods and livestock, which are estimated for 1928 at 3,100 millions. The competitive tariffs, which yield 268.5 millions, would not be affected by the increase of rates. Simultaneously with the application of the increase the reductions of which I have already spoken in the case of coal, straw and hay and iron exports, invoiving a loss of 30.8 millions, would also be applied. On the other hand it is estimated that the raising of rates will reduce traffic by 2 per cent. In view of these facts rates would have to be raised by 10 per cent in order to yield additional receipts to an amount of 195 millions.

The increase of transport charges would be relatively insignificant as compared with the price of the majority of commodities, in particular as regards the necessaries of life. The amount of the increase on 50 kgs. of commodities according to the distance would work out at:

1.5 to 6 Pf. for potatoes,
4.0 » 14.5 » » cereals and flour,
0.5 » 5.5 » » coke,
1.0 » 5.0 » » potash.

As regards coal, the increase of rates would in general be compensated for up to a distance of 52 km. by the previous reduction of 2 Pf. in the consignment charge, while for greater distances the increase would be applied on a smaller scale.

Following the increase, the average cost per ton-kilometer would work out at about 44 per cent (not including transport tax) higher than in 1913 and 51 per cent higher including the transport tax. Even so it would be less than the cost per ton-kilometer in 1924 and on the other hand the increase would correspond to the actual rise in the cost of living as compared with 1913, viz. 50.7 per cent in April.

Constructional works.

In my previous report I supplied information as to the progress made by the Company in 1927 in respect of the renewal, improvement and extension of its safety appliances, telephonic plant etc. I shall not refer to this question in the present report.

I also previously discussed the programme of upkeep and renewal of permanent way during 1927. According to the estimates arrived at in November 1927, the programme—which was moreover planned on a large scale—was to cover *inter alia* the complete renewal of approximately 4,020 km of running track, new material being used and fresh ballast. The estimates were slightly exceeded, and during the past business year 4,136 km of running track were entirely renewed. The figure of 3,100 km considered by the Board as representing a normal renewal and corresponding approximately to 4 per cent of the running tracks has thus been exceeded by more than 1,000 km.

Nature of expenditure	Final results for 1927 RM	Minimum estimates for 1928 RM
A. Expenditure for general work to be carried out over the whole of the Railway system.		
1. Dwelling houses for the personnel of the Reichsbahn	1,621,117	1,600,000
2. Fixed installations for the service of the Kunze-Knorr brakes	866,412	—
3. Reinforcement of bridges to allow for increased loads	47,641,515	29,500,000
4. a) Installation of block system on important lines	1,814,870	500,000
b) Completion of signalling installations not yet finished	—	200,000
5. Installation of electric lighting for signals and switch indicators	969,115	350,000
6. Establishment of new telephone communications and improvements to existing installations	2,227,815	450,000
7. Measures to prevent the passing of stop signals	2,530,587	3,600,000
8. Improvements to installations in classification yards	134,917	300,000
9. Unforeseen expenditure	6,557,222	30,000,000
Total A	64,363,570	66,500,000
B. Expenditure for new constructions in the 30 Railway districts.		
(Construction of new lines, and of tracks to supplement existing lines, construction and alteration of stations and locomotive sheds, electrification of lines, construction of repair workshops, etc.)	255,000,000	164,500,000
Total (A + B)	319,363,570	231,000,000

In view of its present financial position, the Reichsbahn originally drew up a reduced programme of renewals for the financial year 1928 of 2,097 km, but it will probably be in a position—thanks to the supplementary receipts collected during the opening months of the year and to the extent to which these receipts are not subsequently nullified by losses—to renew an additional 700 to 800 km.

The memorandum addressed to the Government by the Company in support of its request for permission to increase rates states that there are still arrears throughout the Reichsbahn system in respect of the normal renewal of the permanent way due to the conditions of the war and post-war periods, which the Company proposes to make good in approximately eight years with additional expenditure of 70 millions per annum. I would merely state that these arrears are not due to any omission on the part of the Company, for during the financial years 1925, 1926 and 1927—that is to say, during a period of three and a quarter years from October 1, 1924, to December 31, 1927—it has renewed 3,107, 4,043 and 4,136 km of running track respectively, or a total of 11,286 km, which is in excess of the figure for normal renewals, which for the same period would only have worked out at approximately $3{,}100 \times 3{,}25 = 10{,}075$ km.

With regard to the new works the table on page 68 gives the extraordinary expenditure charged directly on capital account, that is to say, the final results for 1927 and the minimum estimates for 1928.

From the explanations I gave in my previous report it will be seen that the above figures do not represent the whole of the expenditure on extensions account actually effected or estimated by the Company. To arrive at the latter figure, the corresponding expenditure for general costs and the expenditure for extensions effected in connection with works of upkeep and renewal, which is charged in the first instance provisionally to the operating account, must be added to the totals (A + B) of the above table. On the other hand, certain expenditures of upkeep and renewal incurred in connection with new works must be deducted together with the receipts derived from the sale of land sites, from reserves etc.

These miscellaneous items of expenditures and receipts are distributed as shown in the table on page 70.

The expenditure of 164.5 millions estimated in the two tables on pages 68 and 70 for the various categories of new works to be constructed during 1928 in the thirty Railway districts—expenditure charged directly to the capital account—is the minimum amount judged necessary by the Board in view of its present limited finances to carry out the most urgently required work from the point of view of a rational operation of the lines and such work as it would be difficult or very prejudicial to hold up at the present juncture.

Expenditure in respect of increases of plant (Anlagezuwachs).

Nature of expenditure	Final results for 1927		Minimum estimates for 1928	
	Approximate sums in millions of *RM.*			
I. Expenditure charged directly to the capital account:				
A. Works.				
1. General work to be carried out over the whole of the Railway system	64.3		66.5	
2. Miscellaneous work in the 30 Railway districts	255.0		164.5	
B. Rolling stock	—		—	
Total	319.3		231.0	
add for general expenses	40.5		28.0	
Together	359.8		259.0	
deduct for expenditure in respect of upkeep and renewal in connection with new works	78.8		58.0	
Balance	281.0		201.0	
II. Expenditure for extensions effected in respect of upkeep and renewal and charged in the first instance provisionally to the operating account:				
a) Equipment, furnishings, etc.	14.1		12.0	
b) Permanent way, buildings, etc.	50.1	139.0	57.0	123.0
c) Rolling stock and repair shop plant	74.8		54.0	
Total	420.0		324.0	
deduct for receipts derived from the sale of land sites and from the „reserve for the application of the programme of constructional work" formed in 1926, etc.	71.5		1.4	
Balance representing the **final expenditure in respect of increases in plant** (Anlagezuwachs)	348.5		322.6	

Taking into account the increased receipts obtained during the first few months of the year, the Company—when drawing up the

Nature of work	Actual expenditure during 1927	Estimated expenditure during 1928
	in millions of reichsmarks	
a) Construction of new lines and establishment of additional tracks on the existing lines	61.1	49.2
b) Transformation of stations, locomotive sheds and service buildings, etc.	107.2	79.7
c) Electrification of lines	78.0	38.6
d) Construction and alteration of repair shops for locomotives, cars, trucks, permanent way apparatus, etc.	8.7	4.9
	255.0	172.4

a. Construction of new lines and additional tracks on the existing lines.

Nature of work	Railway district	Estimated expenditure for 1928	Expenditure from Nov. 15, 1923, to Dec. 31, 1927	Approximate total expenditure
		in thousands of ℳ		
1. New lines:				
Hamburg circular railway	Altona	2,000	17,616	55,222
Borna—Grossbothen	Dresden	1,000	637	5,982
Witten—Barmen	Elberfeld	3,000	1,884	6,335
Verden—Rothenburg	Hanover	1,520	2,526	4,211
Titisee—Seebrugg	Carlsruhe	440	1,093	2,120
Holzheim-Rommerskirchen—Mödrath—Liblar—Ringen—Sinzig	Cologne	1,820	20,118	44,647
Eisenberg—Enkenbach	Ludwigshafen	2,459	2,055	5,835
Preussen (near Dortmund)—Munster (Westphalia)	Munster	4,700	9,815	14,629
Mikultschütz—Brynneck	Oppeln	2,062	3,176	5,500
Zwiesel—Bodenmais	Regensburg	1,308	1,706	3,014
Stettin: junction line for goods trains	Stettin	2,015	24,028	53,201
Klosterreichenbach—Raumünznach	Stuttgart	1,474	1,658	3,132
Schömberg—Rottweil	»	858	1,149	2,033
2. Construction of additional tracks on the existing lines:				
Tegel—Velten: second track	Berlin	700	6,640	13,543
Bommern—Vorhalle: second track	Elberfeld	400	4,741	5,869
Cologne—Dusseldorf—Duisburg: third and fourth tracks	»	300	—	50,000
Prinz von Preussen blocking station to Langendreer (Ruhr): third and fourth tracks	Essen	643	—	2,165
Halle—Weissenfels: third and fourth tracks	Halle-on-the-Saale	2,045	734	27,700
Hamm (Westphalia)—Wunstorf: third and fourth tracks	Hanover	1,283	8,897	26,595
Cologne—Dusseldorf—Duisburg: third and fourth tracks	Cologne	445	—	20,000
Munster (Westphalia)—Hörne (Osnabrück) blocking station: third and fourth tracks	Munster (Westphalia)	1,400	3,537	6,583
Stettin—Zabelsdorf—Cavelwisch: second track	Stettin	550	1,768	10,210
Böblingen-Eutingen: second track	Stuttgart	700	1,888	6,253
Horb—Rottweil: second track	»	2,763	2,558	23,850
Jagstfeld—Osterburken: second track	»	850	1,501	8,737
Rottweil—Hattingen: second track	»	3,023	—	19,778

detailed provisional programme of new work to be executed in each of the thirty Railway districts—allowed for a slightly higher lump sum figure for expenditure (172.4 millions as against 164.5).

The table on page 70 shows in round figures how the expenditure for the work in question is distributed according to its nature, both

b. Construction and alteration of stations, locomotive sheds and additional plant for locomotive service.

Nature of work	Railway district	Estimated expenditure for 1928	Expenditure from Nov. 15, 1923 to Dec. 31, 1927	Approximate total expenditure
		in thousands of ℛ.ℳ		
Berlin-Tempelhof: extension of classification yard	Berlin	1,800	7,923	12,798
Breslau (central station): locomotive shed: transformation of plant for locomotive service	Breslau	1,365	855	5,308
Liegnitz: improvements	»	1,677	2,844	7,301
Zwickau: enlargement of station	Dresden	3,500	9,332	31,972
Dusseldorf: improvements	Elberfeld	4,376	7,054	33,053
Duisburg: enlargement of station	Essen	3,200	11,944	23,627
Mülheim (Ruhr)-Heissen: enlargement of station	»	2,000	4,645	8,958
Halle (Saale): enlargement of station	Halle-on-Saale	959	12,361	15,544
Bremen: alteration to station	Hanover	1,000	3,508	14,589
Freiburg: enlargement of passenger station	Carlsruhe	1,843	1,989	20,000
Heidelberg: improvements	»	1,042	5,174	23,227
Düren: alteration to station	Cologne	964	3,849	12,778
Gremberg: classification yard	»	1,200	4,042	7,757
Königsberg (East Prussia): new stations and alterations to approach lines	Königsberg	7,112	24,793	42,771
Kaiserslautern: new classification yard and extension to passenger station	Ludwigshafen	1,265	4,634	9,040
Brunswick: alteration to station	Magdeburg	1,177	6.840	10,900
Magdeburg (Buckau): classification yard	»	1,200	4,197	9,529
Munster (Westphalia): locomotive depot	Munster	2,300	1,494	7,775
Munster (Westphalia): improvements			11,564	21,734
Beuthen: improvements	Oppeln	1,424	3,909	7,524
Gleiwitz: improvements	»	1,067	8,596	11,978
Stuttgart: alteration to station	Stuttgart	5,065	21,143	42,745

as regards the final results for 1927 and the estimated expenditure for 1928.

I give on pages 71, 72 and 73 a statement of the estimates for 1928 for the execution of the work calling for the highest expenditure in each of the categories referred to in the table on page 70. At the same time I am giving the figures for the expenditure incurred on each item from November 15, 1923, to December 31, 1927, together with the total amount expended.

In my previous report I referred to the programme of work for the construction of four tracks on the line Cologne–Dusseldorf–Duisburg–Essen–Dortmund.

The estimated expenditure in this respect during 1928 is fixed at 25,331,000 *RM*.

(c) Electrification of lines.

This question is discussed in another section of the present report.

(d) Construction and alteration of repair shops.

Nature of work	Railway district	Estimated expenditure for 1928	Expenditure from Nov.15,1923, to Dez.31,1927	Approximate total expenditure
		in thousands of reichsmarks		
Brandenburg-West: extensions	Berlin	523	13,518	21,513
Brunswick: new shop	Dresden	730	6,047	7,014
Dessau: shop for electrically-driven locomotives	„	1,370	5,750	11,790
Freimann: transformation of the old shop „Neumeyer Werke".	Munich	1,570	3,349	7,452

The total expenditure for the construction of new bridges and other engineering works and for the renewal and reinforcement of existing constructions of the kind included in the above estimates for 1928, but without current expenditure for upkeep, is estimated at 79,593,000 *RM*, of which sum 42,332,000 *RM* correspond to expenditure in respect of extensions properly so called, and the balance to expenditure for renwals to be charged in the last instance to the operating account.

The figures given in the preceding tables for some of the most important categories of work, quoted as examples, give an idea of the vastness of certain undertakings. It is sufficient to remark that the programme which the Company expects to carry out covers more than 200 separate types of work in course of execution, the completion of which within a fixed number of years as from the beginning of 1928, will call for expenditure totalling, it is estimated, approximately 1 milliard reichsmarks.

The programme is on a vast scale and was for the greater part begun formerly, when the Railway easily obtained the funds necessary for the extension and improvement of its system. Some new works have been added by the Company since its creation, in order to comply with traffic requirements and the claims of interested parties. I may mention in particular the electrification of the Berlin lines and the quadrupling of the line from Cologne to Dortmund.

In the memorandum which it submitted to the Government, the Company explains that it will have to provide for a period covering 8 years for supplementary expenditure approximating 600 millions to cover new work to be undertaken, including the conclusion of the programme of extension and improvement of the Ruhr and Rhineland systems.

During the same period of 8 years, the Company further contemplates a fresh expenditure of 200 millions for the electrification of the main lines. The total cost of this programme would thus be $1{,}000 + 600 + 200 = 1{,}800$ million reichsmarks. If the work were completed in 8 years, the annual expenditure would amount to 225 millions. To this there must be added an annual outlay of approximately 50 millions for general work to be carried out over the whole of the railway system (construction of dwelling houses for the personnel, improvement and extension of safety appliances and the telephone system, etc.). The total annual expenditure would therefore amount to about $225 + 50 = 275$ millions. To this sum must be added the expenditure on extensions account incurred in connection with the work for the upkeep and renewal of fixed installations and rolling stock. Accordingly, in its memorandum to the Government on the proposed increase in railway rates, the Reichsbahn estimates its expenditure on capital account in a normal year at a total of more than 500 millions.

These are very considerable expenditures which the Company will no doubt have much difficulty in covering, in view of the shortage and the high cost of the capital available in Germany, and also in view of the necessity, in the general interests, of economical recourse to such funds as there are.

In order to reduce as much as possible the charges resulting from this programme, the Company will have to examine carefully whether some of the items cannot be postponed and corresponding expenditure reduced. It will have in any case constantly to watch traffic movements and any changes which may occur in operating methods so as to adapt expenditure to the real requirements of the Railway and in the first instance to execute such work only as will prove most speedily remunerative or such as could hardly be stopped without less to the Railway.

Electrification.

Electrification of main lines.

Silesia : In my report No. 6 I indicated the reasons which have led to the electrification of the last section of the main mountain

line from Breslau to Görlitz, which was still operated by steam. The afore-said section *Königszelt–Breslau* measuring 49 km. was opened for electric traction on January 28, 1928. The branch lines *Lauban–Kohlfurt* and *Lauban–Marklissa,* having a total length of 32 km., have also been operated on electric traction, the former since April 3, 1928, and the latter—which is a line of only secondary importance—for the last few days. Accordingly the electrification of the main Silesian line with its principal branches to the Sudetengebirge covering a total length of 350 km. has been completed. In addition 8 km. of lines reserved to goods traffic in the neighbourhood of Breslau were electrified in 1927.

Central Germany. Although no electrification has been undertaken within the areas of the Railway districts of Halle and Magdeburg since the creation of the Company (with the exception of 6 km. of goods traffic lines opened on July 1, 1925, between Magdeburg and the classification yard Magdeburg-Rothensee) it is interesting to note at this point that in March last the Company placed 6 motor coaches working on an alternating current and capable of running at 100 km. per hour, on the lines Halle–Leipzig and Leipzig–Magdeburg, which have been electrically operated since 1923. Moreover, the 38 km. separating Halle from Leipzig are now covered in 34 minutes in spite of a stop at the air station at Schkeuditz and in spite of very sharp curves where speed has to be reduced to 75 km. an hour.

These motor coaches have a very great starting power. Each of them has two bogies and is fitted with two motors with a continuous power of 190 horse power respectively. All the electric fittings, including the main oil-break switch and the transformer, are situated below the coach; a driver's cabin is situated at each end of the coach. The steering handle controls a switch which only allows the driving current to pass if the driver presses on a button; so soon as the button is released the current is automatically interrupted.

Another innovation was the introduction at the beginning of 1928 in the area of the Reichsbahn district of Halle of an electric express locomotive fitted with electric nose suspension motors (Tatzenlagermotoren) like those utilised on motor coaches and in particular on trams.

This single-phase current locomotive was constructed by the firm of Siemens-Schuckert as regards the electric fittings, while the mechanical parts was furnished by the firm of Borsig. The engine has been constructed to draw passenger trains weighing 600 tons at a speed of 95 km an hour. Its continuous power, varying according to the load, was to be 2 000 kilowatts at the highest speed; actually it has reached 2 200 kilowatts at 110 km an hour.

The 4 ten pole motors on the compensated series winding system are situated in pairs within the two bogies; on the one side they are supported on the axle of the driving wheels by a bearing,

the seat of which forms part of the casting supporting the pinion of the motor, while on the other side this casting is suspended from the bogie by two spindles fitted with spring dampers.

The type of construction and the relatively small weight of the motors is responsible for the fact that the quantity of material not suspended on springs is smaller than in the case of the heavy steam locomotives.

This is the first time that the Reichsbahn has employed the motors known in Germany as "Tatzenlagermotoren" on fast locomotives. Locomotives of this type, but constructed for the goods service and for lower speeds, have been employed for the past three years on the mountain line Görlitz–Königszelt–Breslau where they give satisfactory results.

Bavaria. The section *Rosenheim–Traunstein* (53 km) was opened for electric traction on March 27, 1928; the section *Traunstein–Freilassing* (28 km) was similarly opened on April 20. Accordingly the electrification of the main line Salzburg–Munich, covering a distance of 153 km, has been completed; the first section Salzburg–Freilassing which is almost entirely situated in Austrian territory was electrified as early as 1918.

At the end of May 1928—apart from the electrically operated lines of the urban and suburban systems in Berlin and Hamburg—the total length of lines electrically operated by the Reichsbahn was 1268 km.

The total length of electrified lines owned by the Reichsbahn represents 2.3 per cent of the total system. This is approximately the same proportion as in France.

The electrification of railways must be considered in the first place from an economic point of view. The fact that electrification is less advanced in Germany than in Italy, Sweden and more especially Switzerland (the proportion of electrified line as compared with the total of the State owned lines was 6.75 per cent in the case of Italy on June 30, 1927, 15 per cent in the case of Sweden and 49.8 per cent in the case of Switzerland at the end of 1927) is due to economic conditions in these countries, which import the greater part or even the whole of their coal, which naturally costs them more than it does the producing countries. The situation is obviously quite different in England and America: out of the 31,117 km operated by the four principal companies in the United Kingdom only 640 km or 2.06 per cent of the total system controlled by the four companies were electrically operated on January 1, 1927; in the United States the proportion does not exceed 0.75 per cent.

It may therefore be said that the extension of electric traction on the railways is a question which demands to be dealt with very prudently. The example of the Austrian Federal Railways which, after investing considerable capital during the last few years in the electrification of their main lines, decided in November 1927 to suspend the electrification (provisionally at any rate) of the lines Vienna–Graz and Vienna–Salzburg on financial grounds, gives

food for thought. The small percentage of electrification in the United States, despite the abundance of capital and the fact that the electrical industry is highly developed, is still more striking.

It is conceivable therefore that the Company must exercise the greatest caution as regards the pressing demands made upon it to embark without delay on the electrification of numerous lines in Central Germany, Wurtemberg and Baden.

Electrification of the Berlin and suburban lines.

The work of electrification of the Berlin and suburban lines, which was described in my previous Reports, is progressing steadily and the Company hopes that the majority of the fixed installations will be completed by the end of June 1928, with the exception of some minor details of perfection.

The expenditure actually incurred during the business year 1927 in respect of fixed installations (i. e. not including rolling stock) totalled 58,736,086 *RM*, whereas the expenditure incurred since the work was put in hand up to December 31, 1927, totalled 62,820,451 *RM*. The expenditure provided for the business year 1928 amounts to 29,900,000 *RM* and the total cost of the entire fixed plant, including the electrical equipment of the line Jungfernheide–Siemensstadt–Gartenfeld, which it was only decided to electrify after the original scheme had been drafted, is estimated to amount to 95,767,000 *RM*.

Up to the present the rolling stock ordered numbers 368 motor coaches and 340 trailers. These vehicles, including their electrical equipment, will cost altogether approximately 57.3 million *RM*.

Accordingly the total expenditure incurred is approximately 95,767,000 + 57,300,000 = 153,067,000 *RM*. This sum is about equal to the original estimates if the additional expenditure for the branch line Jungfernheide–Siemensstadt–Gartenfeld is included.

As the passenger traffic has increased since the time when electrification was decided upon in 1926, it is thought that the rolling stock ordered will shortly prove inadequate and that it is advisable to place orders immediately for an additional 81 motor coaches and 90 trailers for the Ringbahn. In this way it is hoped that an adequate service can be supplied in periods of heavy traffic, and that the rolling stock can be systematically maintained fit for use.

In addition the Company proposes to order 79 motor coaches and 75 trailers to ensure the service on the north suburban lines already run by electricity and on the branch line Jungfernheide–Siemensstadt–Gartenfeld and for the replacement—with the addition of two complete new trains—of the worn out rolling stock on the Berlin (Potsdamer Ringbahnhof)–Lichterfelde-Ost line which was opened for electric traction 25 years ago.

Altogether therefore the Company proposes to order 160 motor coaches and 165 trailers during the current business year, at a total

cost of approximately 34 million ℛℳ payable in the business years 1928 and 1929.

The automatic block system and the daylight colour signals will come into operation not later than June 30 on the Stadtbahn lines between the Schlesischer Bahnhof and Charlottenburg Station. It is expected that when traffic is at its height it will be possible to reduce the interval between trains to two minutes.

The first electric train was run experimentally in the night from April 23 to 24, 1928, on the line running east to west from Erkner to Potsdam, and the Company is continuing trial trips of this kind with a view to getting the new plant into working order. The Company expects to place about 5 electric trains on the service on this line at the beginning of June.

Provisionally these trains will replace steam trains and will run according to the time table at present in force. All-electric traction with more frequent and speedier trains (on certain lines the time saved will be about 30 per cent) will be introduced in the autumn of the current year on the Stadtbahn properly so-called (the central line traversing the heart of the city from east to west) and also on the suburban lines connected therewith. The Ringbahn will be electrically operated somewhat later.

* * *

Rolling Stock.

Rolling stock park, new purchases and rolling stock scrapped.

Comparison between the rolling stock park on December 31, 1927 and September 30, 1924 (when the Company was created) reveals for the entire railway system of normal and narrow gauge lines the variations indicated in the following table:

Categories	Park [1] on Sept. 30, 1924	Park on Dec. 31, 1927	Variations on Dec. 31, 1927 as compared with Sept. 30, 1924
Steam driven locomotives	29,645	24,575	— 5,070
Electrically driven locomotives	132	316	+ 184
Diesel locomotives	0	4	+ 4
Trains of motor carriages	433	583	+ 150
Total for self-propelling stock	30,210	25,478	— 4,732
Passenger cars	65,496	61,764	— 3,732
Baggage cars	22,416	21,002	— 1,414
Freight cars	690,553	663,466	— 27,087
including:			
Covered cars	231,503	226,551	— 4,952
Uncovered cars	459,050	436,915	— 22,135
Service cars	6,482	10,831	+ 4,349

[1] The changes made in some figures of this column as compared with those given in my Report of October 28, 1925, are the result of more recent estimates made by the Company.

The trains of motor carriages were made up as follows:

Type	Trains		Motor Carriages		Trailers	
	Sept. 30, 1924	Dec. 31, 1927	Sept. 30, 1924	Dec. 31, 1927	Sept. 30, 1924	Dec. 31, 1927
electric						
with pantograph	162	201	162	201	170	258
with third rail	72	140	72	140	82	160
	234	341	234	341	252	418
with accumulators ...	171	174	330	333	14	11
with combustion engine	5	50	7	54	—	29
with steam engine...	23	18	23	18	—	—
	433	583	594	746	266	458

Thus the total for motor carriages and trailers was 1,204 at the end of 1927, as against 860 when the Company was started, or an increase of 28 per cent.

The above table shows that since the Company was started it has increased more especially its park of electric locomotives, trains of motor carriages, and service cars.

The average age of the rolling stock is shown in the following table:

Categories	end of 1926		end of 1927
	years		years
Steam driven locomotives	12.2	12.1	12,4
Electrically driven locomotives	3.9		
Motor carriages	11.8		10.1
Trailers	10.3		
Passenger cars	18.0		18.1
Baggage cars	14.9		15.3
Freight cars.....	13.3	13.6	14.0
Service cars....	25.1		

In the course of 1926 and 1927 the Company brought the following new material into use:

Categories	1926	1927	1927 as compared with 1926
Locomotives driven by steam or otherwise	116	135	+ 19
Motor carriages	71	72	+ 1
Trailers	89	62	— 27
Passenger cars	146	724	+ 578
Baggage cars	16	56	+ 40
Cars of various kinds	1,600	16,304	+ 14,704

and scrapped the following stock owing to serious damage or age:

Categories	1926			1927	1927 as compared with 1926
Steam driven locomotives	1,713	average age	25.8 years	1,156	— 559
Electrically driven locomotives	2	»	» 12 »		
Motor carriages	8	»	» 15.6 »	—	— 8
Trailers	5			—	— 5
Passenger cars	1,532	»	» 42.5 »	1,358	— 174
Baggage cars	484	»	» 43.7 »	424	— 60
Freight cars	23,634	»	» 30.8 »	16,094	— 7,853
Service cars	313	»	» 47.2 »		

On January 1, 1928, there had still to be delivered in respect of orders placed by that date 579 locomotives driven by steam or otherwise, including 102 electrically driven locomotives, and in addition 394 electric motor carriages with wire or rail contact. 27 motor carriages of other types, 382 trailers, 1,015 passenger cars, 45 baggage cars, 3,345 freight cars or cars for constructional work, and 32 service cars.

The value of the rolling stock acquired in 1927 was 216 million *RM*, of which only 202 million *RM* was paid for out of the 1927 budget.

Rolling stock requirements as estimated by the services of the Company.

In my previous report I indicated that on October 1, 1924, the Company estimated the value of the rolling stock delivered to it over and above the park required for the normal exploitation of the railway at 1,194 million marks. The increase related to 6,000 locomotives, 3,000 baggage cars and 60,000 freight cars. This state of affairs naturally led the Company considerably to restrict new orders in the first few years by limiting them to the special categories of material which it might require. The position will change with the years to come and orders will then be larger to conform with the development of traffic.

When the German Railway Company was constituted the rolling stock park included 29,645 steam driven locomotives and 132 electrically driven locomotives. Whereas the total for the latter had been increased by 184 on December 31, 1927, the total for steam driven locomotives had fallen by 5,070. Nevertheless, in spite of the heavy increase in traffic since 1924, the Company holds the view that there are still 2,275 steam driven locomotives over and above the park required for its exploitation. This is due not only to the greater power of the locomotives ordered in recent years, but also and more especially to the better utilisation of the locomotives, owing to the equipment of freight cars with continuous brakes and to improvements in the making up of trains, in the traffic order for the personnel and locomotives and in the service time table.

The surplus now consists of about 1,800 goods locomotives, of which 500 are of low power and 1,300 of average power, plus 200 locomotives with separate tender for slow trains and 275 light tank engines of types not well suited to present working requirements.

In spite of the surplus at its disposal (of which however only three quarters is in working order), the Company considers that it will need to acquire, in 1928, 82 express locomotives and about 200 improved locomotives of the light types. For the next few years it is contemplating an annual outlay of 50 million *RM* for the purchase of 300 new locomotives but it estimates that in later years this expenditure will be trebled, since it will be necessary to acquire on an average 900 locomotives per annum.

For passenger cars, the condition of which leaves in general much to be desired, the shortage in 1927 of heavy traffic was at times such that on public holidays about 5,000 covered freight cars, which are obviously not suited for passenger traffic, had to be fitted for the conveyance of passengers. In all probability the figure of 5,000 will this year have to be increased in order to meet traffic requirements, owing to withdrawals on account of age of some of the rolling stock, which are required both to guarantee the safety of the operation and also to avoid excessive outlay for repairs. According to observations in connection with the German railways, the age of cars should not normally exceed 35 years; nevertheless 5.1 per cent of the cars are older than this, while 4 per cent are more than 40 years old.

The Company holds the view that the proportion of cars exceeding 25 years of age should not be more than 14 per cent of the total park. In order to bring this about, 3,000 cars per annum should be withdrawn from circulation, a rate of withdrawal which has not been realised during the last few years. In the provisional budget for 1928 orders for 1,025 cars are contemplated.

For freight cars, as I have already stated, the net surplus over real requirements was estimated at 60,000 cars on October 1, 1924. According to a recent enquiry the surplus will probably still be 36,000 cars on December 31 next. But the Company holds the view that a freight car should normally be retired at the end of 33 years; its park however still includes 6.1 per cent of cars of more than 33 years of age, 3 per cent of more than 40 years and 1.8 per cent of more than 50 years. It should thus be necessary to withdraw large members of cars from circulation in future. Nevertheless, owing to the surplus material available, only half the cars retired need be replaced during the next few years. The only freight cars of which there is a shortage are the large capacity covered cars, which are much in demand among consignors; as service cars certain special types would be required, such as ballast cars, reservoir cars and travelling cranes.

Baggage cars should normally be renewed at the rate of 600 per annum, in order that the number of those of more than 25 years of age may not exceed 16 per cent of the total park.

The requirements indicated above will be augmented by the amount needed for the renewal of special material, such as electrically driven locomotives, motor carriages, service cars and boats.

In its recent memorandum to the Government in support of the application for an increase in railways rates, the Company estimated at 285 million marks in all the orders for rolling stock in the next few years. For 1928, pending a settlement of its application to raise railway rates so as to procure the necessary resources, it has restricted to 200 millions the sum provided in the provisional budget for orders of new material The following table compares the expenditure under this head effected in recent years with that provided for 1928.

Expenditure on rolling stock and shipping

(in millions of marks.)

Categories	Actual payments			Minimum expenditure estimated for 1928
	in 1925	in 1926	in 1927	
Steam driven locomotives.....	11.5	17.2	24.9	26.5
Electrically driven locomotives.....	10.6	9.0	11.9	18.0
Motor carriages	10.9	14.2	25.9	48.0
Passenger cars	7.9	10.7	26.9	52.0
Baggage cars	0.6	0.4	1.2	4.0
Cars.....	14.8	11.3	110.9	51.2
Boats.....	2.0	1.3	0.2	0.3
Total....	58.3	64.1	201.9	200.0

Special programme for improvements to rolling stock.

In addition to the purchase of new material, the Company every year devotes large sums to improving material, both in order to increase the safety of transport and with a view to keeping the park on a level with technical progress and to improving the efficiency of the material as far as possible.

These improvements form the subject of the so-called "special" programmes, which cover work normally to be carried out during a period of several years, as was the case for example with the installation of the continuous Kunze Knorr brake on freight cars.

The special programme now in course of exécution relates more especially to the following work:

(*a*) The electric lighting of existing corridor carriages and of the baggage cars of express trains (electric lighting has still to be fitted in about 1000 cars now lit by oil gas).

(b) The heating of express trains by hot water circulation which enables the temperature to be better regulated than steam heating permits.

(c) The installation of electric lighting on locomotives, together with provision for superheating and pre-heaters for feed water, the object of which is to save coal.

(d) The provision of stronger fastenings for 20 ton covered freight cars, in order to prevent the doors from opening when the train is in motion, which has frequently been the cause of serious accidents.

(e) The replacement of the suspension springs which are too weak in uncovered 20 ton cars by springs of better steel.

(f) The replacement of the old roofing of covered cars and of the cardboard roofing fitted during the war by bituminous covering which is water-proof.

(g) The installation of abutments of the new standard type for lubricating boxes, experience having shown that their utilisation means a marked decline in the number of hot boxes.

(h) The replacement of the old shaft buffers for passenger and freight cars by bush buffers which avoid the tendency to overlapping in shunting and to collisions when the axles of the buffers are not at the same height. The fitting of the park with bush buffers will necessitate the outlay of 142 million ℛ𝑀; up to the present only one-third of the work has been carried out owing to the inadequacy of the available funds; it is as yet impossible to make up even express trains of cars all fitted solely with bush buffers.

(i) The equipment of freight cars with strengthened couplings of 65 tons resistance, with stronger hooks, draw-bars etc. Of this work, which will cost about ℛ𝑀 72 millions, two-thirds is already done. For the rest it is important to complete the work as rapidly as possible, since the number of breakaways, although much reduced by the work already done for the installation of stronger appliances, still averages 12 per day on the Reichsbahn system.

The execution of the present special programme would entail for 1928 and the immediately following years an outlay of ℛ𝑀 100 millions per annum, counting that two years would be required for the fitting of stronger couplings, six years for the buffers and four years for the springs. Improvements of a similar nature will hoewer constantly be required: for the near future a special programme is contemplated for the installation of appliances preventing engine-drivers from passing stop signals, and this will entail the outlay of about ℛ𝑀 200 millions.

It should be noted that the improvements to material not only improve the output and increase the safety of transport, but also curtail operating expenditure and in particular the outlay for upkeep. In these respects they thus represent expenditure which is productive at least in part.

Expenditure for the upkeep of rolling-stock.

According to recent statistics, the cost of the upkeep of rolling-stock in the workshops of the Company was *R.M* 778,852,000 in 1927, made up as follows:

	RM.	Percentage
Steam driven locomotives	301,018,000	38.6
Electrically driven locomotives	4,678,000	0.6
Motor carriages	6,958,000	0.9
Total for self propelling stock....	312,654,000	40.1
Passenger and baggage cars of passenger trains	134,609,000	17.3
Freight cars and vans of goods trains	277,773,000	35.7
Miscellaneous payments	53,816,000	6.9
	778,852,000	100.0

If we compare these payments with the average park for 1927, the cost of upkeep works out as follows:

Per steam driven locomotive	12,011	*R.M*
Per electrically driven locomotive	15 238	»
Per motor carriage	12,337	»
Per passenger or baggage car of passenger trains	1,914	»
Per freight car or van of goods trains	405	»
Per 1,000 locomotive-km of steam driven locomotives	305.—	*R.M*
Per 1,000 locomotive-km of electrically driven locomotives	318.—	»
Per 1,000 motor carriage-km	221.—	»
Per 1,000 axle-km of passenger of baggage car of passenger trains	14.9	»
Per 1,000 axle-km of freight car or van of goods trains	14.5	»

The expenditure devoted to the upkeep of rolling stock by private undertakings is relatively unimportant. It amounted in 1927 to 5.7 million reichsmarks.

The figures corresponding to the above statistics were not compiled for 1926.

Comparison of payments of the engine department in 1926 and 1927.

In my report of December 2, 1927, I gave some information on the rationalisation by the Reichsbahn of types of rolling stock and more particularly of types of steam driven locomotives; I then indicated the saving which it is hoped to realise by the use of powerful locomotives with an axle pressure of 20 tons, the generalisation of super-heating, the use of pre-heaters for the feed water, the installation of screw drop grates, etc.

It is interesting to observe the financial results of the improved methods of exploitation, by comparing the actual payments of the engine department in 1927 and 1926 and the volume of traffic as shown in the statistics of the Reichsbahn.

The most suitable unit of comparison for the calculations would appear to be the gross ton-km hauled, that is, the net work accomplished by the self propelling units in the traction of trains. Like the gross-tariff ton-km., the gross ton-km. hauled does not include work in connection with the transport of the actual weight of the propelling vehicle, with shunting, empty journeys, the heating of trains, the reserve service and other accessory service; but it is preferable to the gross-tariff ton-km., for the reason that the latter does not always relate to transport actually furnished on the lines, but only to the transport for which payment was made.

In 1927 the engine department of the Reichsbahn furnished with self propelling vehicles of all kinds (steam driven locomotives, electrically driven locomotives and various motor carriages) 245,410 million gross ton-km. hauled, as against 224,100 in 1926, representing an increase of 9.5 per cent in 1927. These figures are made up as follows:

Years	1927	1926
	millions of gross ton-km.	
Passenger trains	79,230	73,722
Goods and service trains	166,180	150,378
	245,410	224,100
of which the following amount was steam hauled	238,171	218,700

By way of additional information we may mention that the gross weight of a passenger train was 216.4 tons in 1927, as against 213.1 tons in 1926, and the gross weight of a goods or service train was 693 tons in 1927, as against 673 tons in 1926 (the cargo capacity of these trains was 318 tons in 1927 as against 311 tons in 1926).

On the other hand, the operating payments of the engine department amounted to 1,245.7 million *RM* in 1927 as against 1,211.5 million *RM* in 1926, including 243.3 millions in 1927 and 241.5 millions in 1926 for interest and amortisation at the rate of 10 per cent on the purchase price of the locomotives, estimated at an average of 1,400 *RM* per ton. The 1927 payments thus exceeded those for 1926 by only 2.63 per cent.

If we compare the operating payments with 1 million gross ton-km hauled, we find an outlay of 5,076 *RM* in 1927 as against 5,401 *RM* in 1926 for the park of locomotives and motor carriages necessary for traffic requirements, together with reserves and the engines under repair, viz: 23,500 self propelling vehicles weighing 1,725,000 tons in 1926 and 23,203 weighing 1,738,000 tons in 1927. The outlay per million gross ton-km hauled was in consequence 6 per cent less in 1927 than the figure for 1926.

It will thus be seen that if it had been necessary in 1927 to pay the same as in 1926 per gross ton-km hauled, the amount expended would have been $245{,}410 \times 5{,}401 = 1{,}325.5$ million *RM*, whereas the sum actually expended was only 1,245.7 millions. The saving realised thus works out at approximately 79.5 million marks, or 6 per cent.

This saving is to be explained on various grounds: increase in traffic, better utilisation of locomotives owing to closer collaboration between the circulation and engine departments, rational organisation of labour in the big workshops, more rapid execution of small repairs in the depots, extension of the system of bonus grants to engine drivers for saving coal instituted on April 1, 1926, improvements to rolling stock, withdrawal from circulation of locomotives which are not sufficiently powerful or efficient, etc.

It is interesting to observe that the number of km. covered by the locomotives without undergoing heavy repairs rose from an average of 67,000 km in 1925 to 73,000 km in 1926 and 82,000 in 1927, a circumstance which has led to considerable reductions in the expenditure of the workshops.

A further appreciable saving has been realised in the consumption of coal by steam driven locomotives. The consumption by the Reichsbahn fell from 55.14 tons in 1926 to 53.79 tons in 1927 per million gross ton-km hauled.

These figures are the quotients of the quantities of coal actually consumed by the steam driven locomotives (12,059,000 tons in 1926—or 11.5 per cent of the total consumption of coal in Germany—and 12,811,400 tons in 1927) divided by the number of ton-km indicated above.

But for a general comparison of the payments of the engine department between 1927 and 1926, certain supplements for fuel must be added, which are estimated by the Company at 312,000 tons for 1926 and 384,000 tons for 1927, in order to make allowance for the gross ton-km. hauled by electrically driven or Diesel locomotives and by motor carriages other than those driven by steam. Under these conditions, estimating the price of coal at 21 *RM* per ton, we have an outlay of 1,158 *RM* in 1926 and 1,129 *RM* in 1927 per million gross ton-km. hauled, which is evidence of a saving of 2.5 per cent in 1927 as compared with 1926 in the cost of coal for traction.

The most considerable saving for the engine departments has been however in connection with the outlay for the upkeep of the locomotives and motor carriages in the big workshops of the Company, and with the outlay for skilled workmen employed on repairs in the depot workshops. This amounted in 1927 to only 1,274 *RM* per million gross ton-km. hauled, as against 1,400 *RM* in 1926. The saving is 9 per cent. This is largely attributed to the greater attention paid to the locomotives when running and to the keeping clean of the steam and smoke pipes, the fire boxes and the boilers, which have made it possible to economise in workshop material, spare parts and days of repairs.

GASTON LEVERVE,

Commissioner for the German Railways.

Annexes.

Annex I.

Managing Board of the German Railway Company.

Messrs. C. F. von Siemens, Chairman.
C. Stieler, Vice-Chairman.
M. Margot, Vice-Chairman.
A. von Batocki.
C. Bergmann.
G. Bianchini.
O. Blum.
W. Buck.
D. Fischer.
P. Habich.
V. von Hertel.
J. Jadot.
P. Klöckner.
H. Luther.
H. O. Mance.
O. von Miller.
H. Münchmeyer.
F. Ott.

Commissioner for the German Railway Company:
M. G. Leverve.

Trustee for the German Railway Bonds:
M. L. Delacroix.

General Management of the German Railway Company.

Messrs. Dorpmüller, General Manager.
Weirauch, Assistant General Manager and Staff Manager.
Vogt, Traffic and Rates Manager.
Kumbier, Manager of the Operating and Permanent Way Department.
von Frank, Manager of the Bavarian Administrative Group.
Anger, Manager of the Engine Department (workshops and rolling-stock).
Jahn, Manager of the Accounting and Legal Departments.
Wolf, Manager of the Administrative Departments.
Hammer, Manager of the Supplies Department.

Annex II.

Service of Reparation Bonds.

Date	Gold Marks[1]	Reichsmarks[2]	Business year of the Company
First reparation year:			
March 1, 1925	100,000,000	100,255,000.00	
August 1, 1925	40,000,000	39,706,539.82	
August 31, 1925	60,000,000	59,930,880.00	
Total....	200,000,000	199,892,419,82	Business year 1925
Second reparation year:			
October 1, 1925	50,000,000	48,599,028.90	
November 2, 1925	50,000,000	48,808,355.05	
December 1, 1925	50,000,000	49,069,588.96	
January 2, 1926	50,000,000	49,363,293.67	
February 1, 1926	50,000,000	49,691,582.58	
March 1, 1926	50,000,000	49,876,427.31	
April 1, 1926	50,000,000	48,750,540.51	
May 1, 1926	50,000,000	48,995,795.29	
June 1, 1926	50,000,000	49,256,233.81	
July 1, 1926	50,000,000	49,520,893.90	
August 2, 1926	50,000,000	49,723,265.69	
September 1, 1926	45,000,000	44,857,845.00	Business year 1926
Total....	595,000,000	586,512,850.67	
Third reparation year:			
October 1, 1926	45,000,000	43,771,356.00	
November 1, 1926	45,000,000	44,037,622 65	
December 1, 1926	45,000,000	44,301,559.66	
January 3, 1927	45,000,000	44,422,596.67	
February 1, 1927	45,000,000	44,873,737.87	
March 1, 1927	50,000,000	50,074,550.00	
April 1, 1927	40 000.000	39,115,030.20	
May 2, 1927	45,000,000	44,234,406.65	
June 1, 1927	45,000,000	44,484,655.76	
July 1, 1927	45,000,000	44,668,988.46	
August 1, 1927	45,000,000	44,748,745.30	
September 1, 1927	55,000,000	54,985,095,00	Business year 1927
Total....	550,000,000	543,718,344.22	
Fourth reparation year:			
October 1, 1927	55,000,000	53,858,526.23	
November 1, 1927	55,000,000	53,971,773.63	
December 1, 1927	55,000,000	54,315,254.38	
January 2, 1928	55,000,000	54,562,119.51	
February 1, 1928	55,000,000	54,837,856.20	
March 1, 1928	55,000,000	55,003,960.00	
April 2, 1928	55,000,000	53,769,646.25	Business year 1928
May 1, 1928	55,000,000	53,991,672.87	
June 1, 1928	55,000,000	54,156,381.03	
etc.	etc.		

[1] Amounts due from the Company, without deduction for the discount on advance payments in respect of the semi-annual instalments provided for in § 8 of the statutes of the Railway Company.

[2] Amounts paid by the Company, taking into account the conversion from gold marks into reichsmarks and the discount allowed to the Company for advance payments. This discount has been calculated at the rate of 6 per cent for the first three reparation years. It is fixed at 5 per cent for the fourth year.

Annex III.

Payment of the Transport Tax.

First reparation year.

The Company paid the whole of the proceeds of the tax to the Reich.

Second reparation year.

Payments of the Company for reparation account:

13 monthly payments spread over the period September 21, 1925, to September 15, 1926

— total amount in reichsmarks	249,451,093.90
— value in gold marks	250,000,000.00
Total proceeds of the tax (in reichsmarks)	271,486,419.23

Third reparation year.

Payments of the Company to the Reich		Payments of the Reich on reparation account		
Date	Amount in reich-marks	Date	Amount in reichsmarks	Value in gold marks
Oct. 21, 1926	24,111,379.10	Sept. 25, 1926	22,431,127.50	22,500,000
Nov. 22, 1926	24,121,530.92	Oct. 25, 1926	22,441,050.00	22,500,000
Dec. 21, 1926	22,145,242.23	Nov. 25, 1926	22,496,107,50	22,500,000
Jan. 21, 1927	21,776,073.37	Dec. 27, 1926	22,439,947.50	22,500,000
Feb. 21, 1927	21,968,915.27	Jan. 25, 1927	22,551,187.50	22,500,000
March 21, 1927	19,806,506.19	Feb. 25, 1927	22,518,067.50	22,500,000
April 21, 1927	23,529,754.10	March 25, 1927	22,523,580.00	22,500,000
May 21, 1927	24,810,701.83	April 25, 1927	22,555,530.00	22,500,000
June 21, 1927	25,959,841.78	May 25, 1927	22,567,702.50	22,500,000
July 21, 1927	29,136,873.14	June 25, 1927	22,567,702.50	22,500,000
Aug. 22, 1927	29,723,162.57	July 25, 1927	22,471,852.50	22,500,000
Sept. 17, 1927	30,831,062.01	Aug. 25, 1927	22,486,185.00	22,500,000
Oct. 21, 1927	644,899.75	Sept. 15, 1927	20,012,200.00	20,000,000
Nov. 21, 1927	857,580.28			
Dec. 21, 1927	1,128,880.02			
Jan. 21, 1928	— 175,425.88			
Total for the third reparation year	300,376,976.68	Total for the third reparation year	290,062,240.00	290,000,000

Fourth reparation year.

Payments of the Company to the Reich		Payments of the Reich on reparation account		
Date	Amount in reichsmarks	Date	Amount in reichsmarks	Value in gold marks
Oct. 21, 1927	26,998,288.77	Oct. 15, 1927	24,148,817.97	24,166,000
Nov. 21, 1927	26,773,722.35	Nov. 15, 1927	24,160,635.15	24,166,000
Dec. 21, 1927	23,344,411.63	Dec. 15, 1927	24,194,950.87	24,166,000
Jan. 21, 1928	24,046,298.98	Jan. 16, 1928	24,222,161.78	24,166,000
Feb. 21, 1928	23,961,422.25	Feb. 15, 1928	24,186,661.93	24,166,000
March 21, 1928	22,489,372.33	March 15, 1928	24,138,160.77	24,166,000
April 21, 1928	25,873,736.94	April 16, 1928	24,147,633.84	24,166,000
May 21, 1928	24,848,015.91	May 15, 1928	24,128,687.70	24,166,000
Total to date	198,335,269.16	Total to date	193,327,710.01	193,328,000

Annex IV.

Operating Account of the German Railway Company for the Business Year 1927.

	Reichsmarks
Receipts	
Passenger traffic	1,379,571,978.57
Goods traffic	3,226,400,653.45
Other receipts	433,296,590.86
Total	5,039,269,222.88
Payments	
I. Payments for Traffic and Maintenance	
a) Payments to staff	
Salaries of officials	1,068,395,590.86
Wages of employees and workmen of Traffic Department	399,646,915.14
Pensions and retaining pay of officials, pensions of other persons having claims on the Company	423,966,358.33
Other payments on account of staff	286,074,494,80
Total	2,178,083,359.13
Less: General costs in connection with the renewal and the extension of installations	88,624,568.45
Balance a: Payments to staff	2,089,458.790,68
b) Payments for material	
Consumption of coal and other working material, maintenance of furniture and equipment	440,115,211.34
Maintenance of permanent way and structures	308,477,135.27
Maintenance of rolling stock	542,041,362.86
Other payments for material	97,561,348.11
Total	1,388,195,057.58
Less: General costs in connection with the renewal and the extension of installations	39,816,835.10
Balance b: Payments for material	1,348,378,222.48
Total payments for Traffic and Maintenance (a + b)	3,437,837,013.16
II. Payments for Renewals	
Renewal of furniture and equipment	2,166,626.88
Renewal of permanent way and structures	479,324,748.18
Renewal of rolling stock	239,435,180.80
Total payments for renewals	720,926,555.86
Grand total of Operating Payments (I + II)	4,158.763,569.02
Surplus	880,505,653.86

Annex V.

Profit and Loss account of the German Railway Company for the business year 1927.

DEBIT			CREDIT	
To		Reichsmarks	By	Reichsmarks
Service of reparation bonds:			Brought forward from 1926	167,703,054.27
interest		553,799,948.33	1927 operating account surplus	880,505,653.86
sinking fund		36,666,666.67		
Service of new debts and loans.....		2,125,833.33		
Legal reserve		100,785,384.46		
Reserve for writing off concession		120,000,000.00		
Net profits.....		234,830,875.34		
To be distributed as follows:				
Preference dividend:				
Instalment paid on bonds of Series IV	5,250,000.00			
Still to be paid (Series I, II and III, and balance for SeriesIV)	56,409,202.13			
	61,659,202.13			
Carried forward to next year	173,171,673.21			
	234,830,875.34			
	Total	1,048,208,708.13	Total	1,048,208,708.13

Balance sheet of the German Railway Company as at December 31, 1927.

Balance sheet of the German Railway Company as at December 31, 1927.

Assets		reichsmarks
Concession in respect of the original railway property taken over	24,500,000,000.00	
Less legal amortisation	36,666,666.67	24,463,333,333.33
Concession in respect of increases of plant		995,141,607.76
Working supplies		407,538,963.44
Cash in hand		66,080,047.05
Credit balances with banks		374,109,090.97
Instalment paid on preference dividend (Series IV)		5,250,000.00
Securities		171,567,728.88
Commercial paper		994,400.00
Claims: On traffic receipts account	11,386,221.69	
Claims: On insurance and welfare organisations	131,832.89	
Claims: Other claims	76,970,816.61	88,488,871.19
Suspense accounts		49,096,509.65
Holdings in other undertakings		16,500,000.00
Total		26,638,100,552.27

Liabilities		reichsmarks
Ordinary shares		13,000,000,000.00
Preference shares:		
a) The proceeds of which the Reich is entitled to claim		500,000,000.00
b) The proceeds of which go to the German Railway Company	1,500,000,000.00	
Less those not yet issued	1,119,000,000.00	381,000,000.00
Reparation bonds	11,000,000,000.00	
Less legal amortisation	36,666,666.67	10,963,333,333.33
Legal reserve		304,975,050.12
Working reserve		756,085,548.72
Reserve for writing off concession		340,000,000.00
Sundry debts: Caution moneys and suspense accounts	4,124,486.06	
Sundry debts: *Credits of the Reich:* To combat unemployment	80,000,000.00	
Sundry debts: To complete lines the construction of which has been interrupted	28,700,000.00	
Sundry debts: Insurance and welfare organisations	5,056,594.48	
Sundry debts: Other debts	39,994,664.22	157,875,744.76
Net profit to be distributed as follows:		234,830,875.34
Preference dividend		
Instalment paid on bonds of Series IV	5,250,000.00	
Still to be paid (Series I, II and III and balance for Series IV)	56,409,202.13	
	61,659,202.13	
Carried forward to next year	173,171,673.21	
	234,830,875.34	
Total		26,638,100,552.27

Gold mark amounts are entered at the rate of one gold mark = one reichsmark.

Berlin, May 16, 1928.

THE GERMAN RAILWAY COMPANY

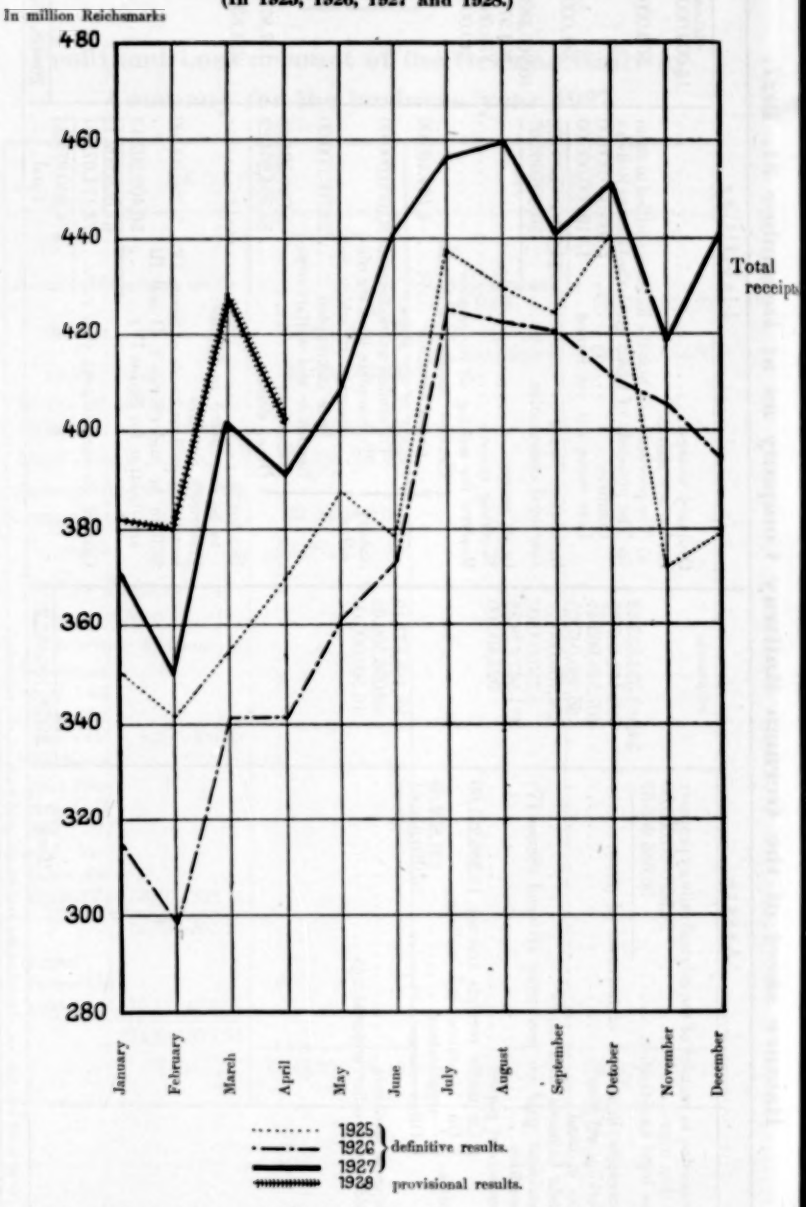
Chairman of the Managing Board
(signed) C. F. von Siemens

General Manager
(signed) Dorpmueller.

Annex VII.

German Railway Receipts.

(In 1925, 1926, 1927 and 1928.)

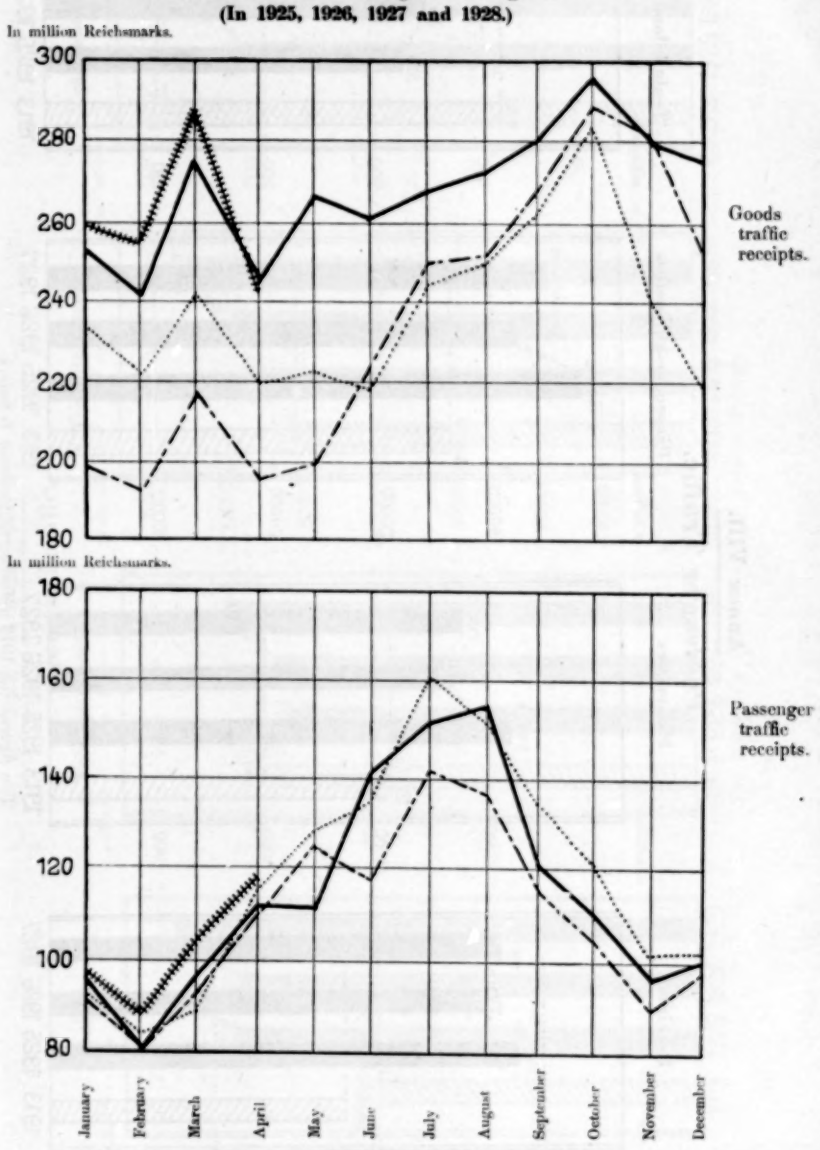


In the total receipts are included the miscellaneous receipts as we as the passenger traffic and goods traffic receipts.

Annex VII.

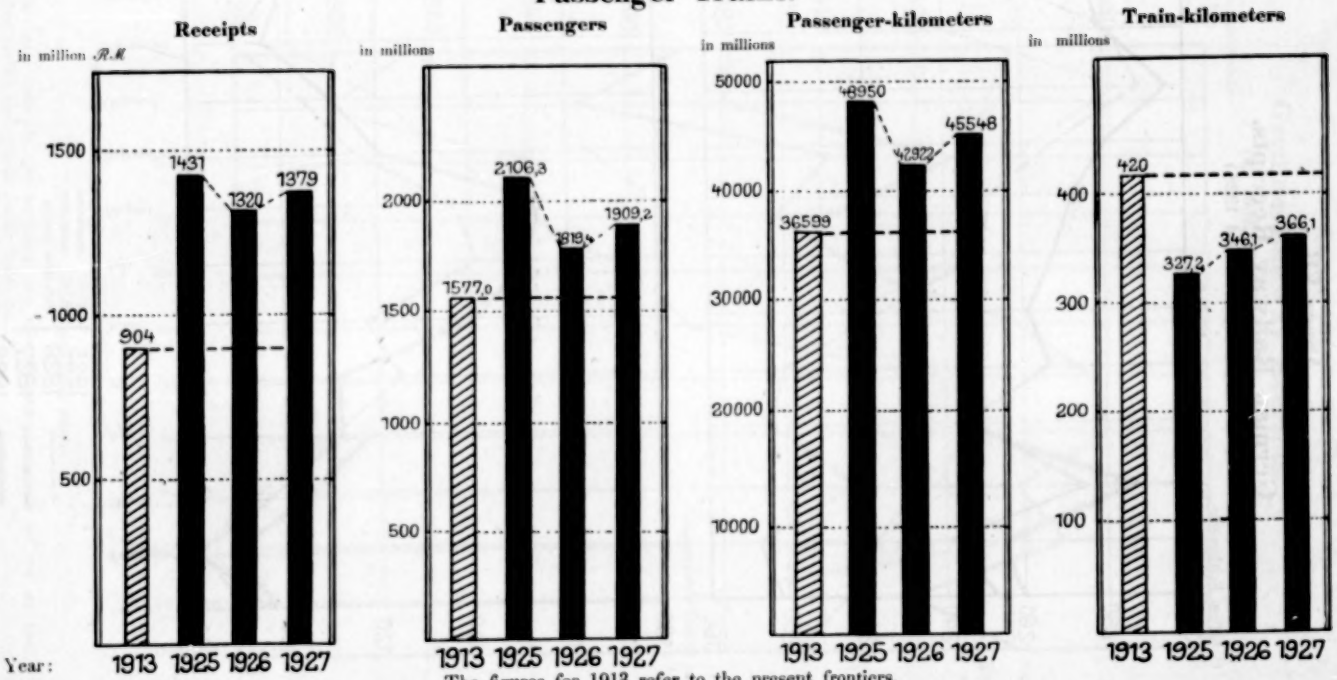
German Railway Receipts.

(In 1925, 1926, 1927 and 1928.)



Annex VIII.

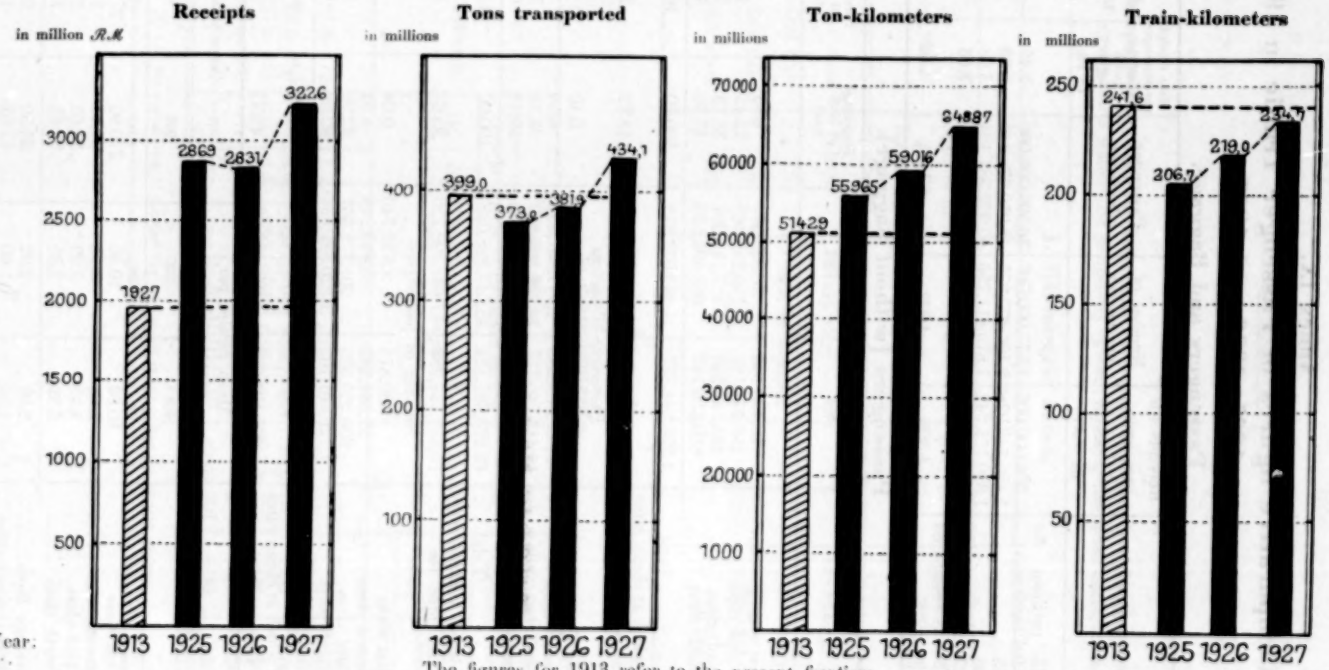
Passenger Traffic.



The figures for 1913 refer to the present frontiers.

Annex VIII.

Goods Traffic.



The figures for 1913 refer to the present frontiers.

Annex IX.

Comparative figures of Passenger Traffic in 1913, 1925, 1926 and 1927.

Passengers and Baggage.

Year	Receipts for passengers and baggage (in ℳ)	Number of passengers	Passenger kilometers	Mean receipt per passenger kilometer (with baggage) (in Pfg.)	Mean distance travelled (in km.)
1913 (without the ceded territories)..	904,000,000	1,577,000,000	36,599,000,000	2.47	23.22
1925	1,430,742,938	2,106,277,975	48,950,272,942	2.92	23.24
1926	1,320,175,242	1,819,411,756	42,922,387,124	3.08	23.59
1927	1,379,571,979	1,909,235,890	45,547,898,048	3.03	23.86
1927 as compared with 1926	+ 4.50%	+ 4.94%	+ 6.12%	— 1.62%	+ 1.14%

Passengers (without baggage).

Classes	1926	1927	Percentage of 1926 total	Percentage of 1927 total
	Receipts in RM.			
First class	18,496,106	20,822,549	1.45	1.56
Second class	158,491,188	159,252,689	12.45	11.97
Third class	485,740,286	487,111,004	38.15	36.61
Fourth class	610,516,747	663,493,576	47.95	49.86
Total....	1,273,244,327	1,330,679,818	100.00	100.00
of which at cheap rates accounted for	238,290,876	282,348,920	18.72	21.22
	Passenger-kilometers			
First class	170,889,320	199,007,614	0.40	0.44
Second class	2,807,361,283	2,771,581,252	6.54	6.09
Third class	14,413,745,712	14,376,503,142	33.58	31.56
Fourth class	25,530,390,809	28,200,806,040	59.48	61.91
Total....	42,922,387,124	45,547,898,048	100.00	100.00
of which at cheap rates accounted for	15,313,753,983	17,631,390,720	35.68	38.71
	Number of passengers			
First class	630,814	722,740	0.04	0.04
Second class	89,364,245	85,843,249	4.91	4.49
Third class	600,225,535	601,778,367	32.99	31.52
Fourth class	1,129,191,162	1,220,891,534	62.06	63.95
Total....	1,819,411,756	1,909,235,890	100.00	100.00
of which at cheap rates accounted for	900,101,393	998,697,039	49.47	52.31

Classes	Mean receipt per passenger-km.		Mean distance travelled	
	1926	1927	1926	1927
	Pfg.	Pfg.	km.	km.
First class	10.82	10.46	270.90	275 35
Second class	5.65	5.75	31.41	32.29
Third class	3.37	3.39	24.01	23.89
Fourth class	2.39	2.35	22.61	23.10
Average fares.....	2.97	2.92	23.59	23.86
Fares at cheap rates ..	1.56	1.60	17.01	17.65

Annex X.

Passenger Rates.

Comparison between the kilometric rates and supplements under the present system and under the proposed system altering the class categories.

1. Kilometric rates.

Present system		Proposed system		New as compared with old rates
Classes	Rate in Pf. per km. tax included	Classes	Rate in Pf. per km. tax included	
1st class	10.8	Luxury class	9.3	— 13.9 per cent
2nd class	7.5	Upholstered class	5.6	— 25.3 per cent
3rd class	5.0	Wooden class	3.7	— 26.0 per cent
4th class	3.3			+ 12.0 per cent

2. Supplements.

Distance	Express trains						Distance	High-speed trains	
	Present system			Proposed system				Proposed system	
	1st class	2nd class	3rd class	Luxury class	Upholstered class	Wooden class		Upholstered class	Wooden class
km	in RM						km	in RM	
1 to 75	2.00	1.00	0.50	3.00	2.00	1.00	1 to 35	0.50	0.25
							36 to 75	1.00	0.50
76 to 150	4.00	2.00	1.00	6.00	4.00	2.00	76 to 150	2.00	1.00
151 to 225	6.00	3.00	1.50	9.00	6.00	3.00	151 to 225	3.00	1.50
226 to 300	—	—	—	12.00	8.00	4.00	226 to 300	4.00	2.00
above 301	—	—	—	15.00	10.00	5.00	above 301	5.00	2.50

Note: No supplement is charged for high-speed trains under the present system.

Annex XI.

Joint Transport Undertakings of the city of Berlin.

I. Passengers carried and receipts.

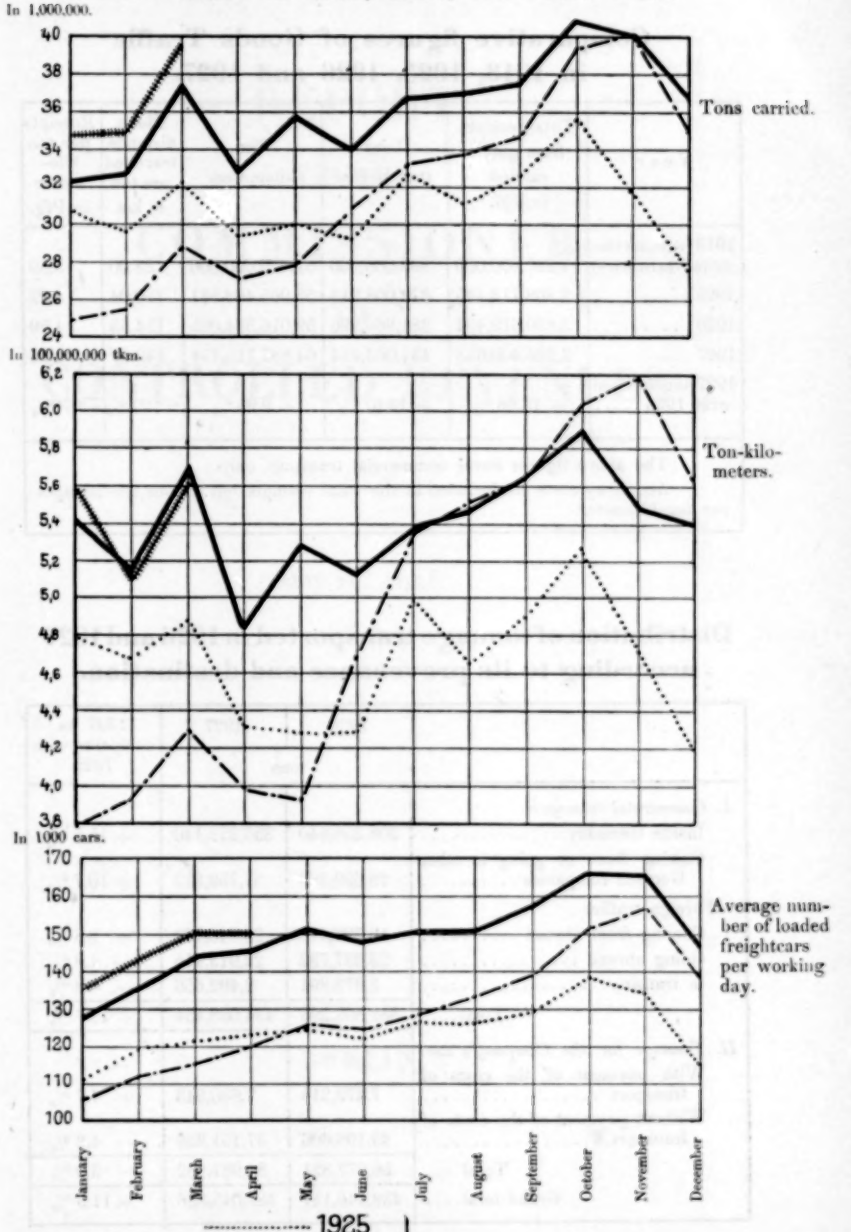
Years	Urban and suburban lines		Tramways		Metropolitan		Motorbuses	
	Passengers carried	Receipts	Passengers carried	Receipts	Passengers carried	Receipts	Passengers carried	Receipts
	millions	million RM.	millions	million RM.	millions	million RM.	millions	million RM.
1924	468.3	61.2	528.1	69.4	182.9	23.8	47.9	8.5
1925	397.7	69.8	768.1	101.9	172.2	28.6	76.9	13.3
1926	354.2	64.6	813.1	107.2	162.9	28.0	112.9	20.0
1927	358.9	64.7	773.0	118.4	186.9	33.3	156.8	31.5

II. Extension of the lines and position of the rolling stock.

Years	Tramways			Metropolitan			Motorbuses		
	Length of lines operated at end of year km.	Number of motor coaches and trailers at end of year	Purchase of new motor coaches and trailers	Length of lines at end of year km.	Number of motor coaches and trailers at end of year	Purchase of new motor coaches and trailers	Number of lines at end of year	Number of cars at end of year	Purchase of new cars
1924....	1247	3332	—	46.9	481	56	16	182	29
1925....	1407	3889	1000	46.9	687	206	19	291	109
1926....	1495	3927	300	53.3	793	106	27	450	159
1927....	1519	3641	343	56.2	828	35	29	585	135

Annex XII.

Goods Traffic in 1925, 1926, 1927 and 1928.



The above figures cover commercial transport only.

Annex XIII.

Comparative figures of Goods Traffic in 1913, 1925, 1926 and 1927.

Year	Total receipts from goods carried in RM.	Tons transported	Ton kilometers	Mean distance travelled per ton in km	Receipts per ton kilometer in Pfg.
1913 (without the ceded territories)	1,927,000,000	399,000,000	51,429,000,000	128.00	3.59
1925	2,868,713,445	373,008,913	55,965,403,531	150.04	4.92
1926	2,830,619,404	381,868,296	59,016,334,065	154.55	4.59
1927	3,226,400,653	434,063,454	64,887,715,154	149.49	4.76
1927 as compared with 1926	+ 13.98 %	+ 13.67 %	+ 9.95 %	−3.27 %	+3.70 %

The above figures cover commercial transport only.

Accessory costs are included in the total receipts but not in the receipts per ton-kilometer.

Distribution of tonnage transported in 1926 and 1927 according to its provenance and destination.

	1926	1927	1927 as compared with 1926
	tons		
I. *Commercial tonnage:*			
Inside Germany	308,358,840	356,251,140	+ 15.5 %
Coming from or going to other German companies	28,699,363	31,759,813	+ 10.7 %
Foreign traffic:			
Coming from abroad	18,798,470	20,646,730	+ 9.8 %
Going abroad	23,337,732	22,913,115	— 1.8 %
In transit	2,673,891	2,492,656	— 6.8 %
Total....	381,868.296	434,063,454	+ 13.7 %
II. Tonnage for the Company's use:			
With payment of the costs of transport	7,479,215	7,830,543	+ 4.7 %
Without payment of the costs of transport.....	49,198,606	47,151,339	— 4.2 %
Total....	56,677,821	54,981,882	— 3.0 %
Grand total....	438,546,117	489,045,336	+ 11.5 %

REPORT

OF THE

COMMISSIONER

OF

CONTROLLED REVENUES

May 10, 1928

BERLIN

Report of the Commissioner of Controlled Revenues.

September 1, 1927, to March 31, 1928.

I.

(1) This report covers the first seven months of the fourth annuity year, corresponding to the last seven months of the German financial year 1927-28. Under the Plan the controlled revenues provide in the fourth year a sum of 500 million gold marks, but until the special reserve fund amounts to 100 million gold marks, which is not yet the case, the amount actually payable in each month is one-tenth and not one-twelfth of the above sum. Accordingly in each of the seven months under review a sum of 50 million gold marks has been retained from the receipts of the controlled revenues, five-sixths thereof being transferred to the Agent General and one-sixth to the reserve fund.

The necessary sums were punctually recovered from the controlled revenues in the early days of each month and paid over to the Agent General or invested for the reserve fund. The total payments, with their equivalents in Reichsmarks, were as follows :

	Gold Marks	Reichsmarks
Budget Contribution	291,666,666.67	291,559,000.01
Reserve Fund	58,333,333.33	58,311,799.99
Total	350,000,000.00	349,870,800.00

(2) The reserve fund will be completely constituted when a small final transfer is made to it in June. On March 31, 1928, it stood as follows :

	Reichsmarks	
Contributions retained from the Controlled Revenues	—	80,312,822.98
Interest earned on investments	2,845,549.99	
Less taxes, commissions and bank charges	368,490.41	2,477,059.58
		82,789,882.56

A statement of the income and expenditure account of the reserve fund for the first seven months of the fourth annuity year, and the Balance Sheet as at March 31, 1928, are annexed to this report.

II.

(1) The following table shows the monthly yield of the controlled revenues in the period under review :

	1927				1928			Total
	Sept.	Octob.	Nov.	Dec.	Jan.	Feb.	March	
	In thousands of Reichsmarks							
Customs .	95,659	102,933	99,257	97,763	146,390	85,318	91,300	718,620
Tobacco .	71,511	68,810	68,133	70,880	64,746	70,416	76,381	490,877
Beer.....	36,371	37,741	33,257	28,341	26,352	27,486	27,485	217,033
Alcohol ..	18,656	18,472	22,211	27,726	23,148	21,457	31,780	163,450
Sugar....	20,744	19,739	14,133	14,402	15,285	11,943	11,428	107,974
Total ...	242,941	247,695	237,291	239,112	275,921	216,620	238,374	1,697,954

The average monthly receipts in the seven months were in round figures 243 million marks, as compared with 219 million marks in the corresponding months of 1926-27 and 239 million marks in the five months covered by my last report. In comparing these yields, note should be taken of the following factors : firstly, during six out of the seven months covered by this report, the sugar revenue collected was in respect of assessments at one-half of the rate in force in the preceding periods mentioned; secondly, during the period from April to August, 1927, the main part of the alcohol tax receipts represented assessments at 280 marks per hectolitre, while a higher rate of 330 marks was in force throughout the later period. In the seven months covered by this report the average monthly yield from the sugar tax was 7,885,000 marks lower, and the average monthly yield from alcohol 3,835,000 marks higher than in the preceding five months. Further, comparing present receipts with those of a year ago, it has to be remembered that the latter contained only five and a half months of beer tax receipts.

(2) As will be seen from the following table, the receipts from the controlled revenues in the financial year 1927-28 greatly exceeded the original estimates and even slightly exceeded the final estimates as voted in March last:

	Original Estimates	Final Estimates	Revenue [1] 1927-28
	In thousands of Reichsmarks		
Customs	890,000	1,255,000	1,250,984
Tobacco.....	700,000	780,000	793,947
Beer.....	335,000	362,000	360,230
Alcohol	210,000	242,000	261,025
Sugar.....	275,000	225,000	224,524
Total	2,410,000	2,864,000	2,890,710

[1] Provisional figures.

The table shows that the original budget estimates were exceeded by 480,700,000 marks and the final estimates by 26,700,000 marks. It was already clear when the last report on the controlled revenues was published that a large increase in the yield over the original estimates was to be anticipated. That the increase exceeded all expectation was largely due to an unforeseen increase in cereal imports. The yield of last year's harvest having been more favourable than in the preceding year, there was reason to hope for a decline in these imports, but it soon appeared that while the quantity of home produced grain had increased considerably the quality was so far below the average that it was necessary to import foreign grain for mixing purposes. The importation of grain therefore took place rather earlier than usual, and it may well prove that less than usual will be imported in the months remaining before the gathering of the next harvest, in which case the financial year concluded will to some extent have benefited at the expense of the current financial year.

On the existing basis the controlled revenues provide a margin of more than 100% for the full amount which they will be called upon to contribute in the normal annuity year; they are sufficient, indeed, to cover the whole of the normal annuity, for which, in so far as they do not directly contribute to it, they furnish under the Plan a collateral security.

The following table shows the total yield of the controlled revenues in each financial year since the inception of the Plan, together with the amounts retained for the budget contribution and the reserve fund, and the balance returned to the German Government and available for ordinary budget purposes:

Financial Year	Total yield of the controlled revenues	Budget Contribution	Reserve Fund	Balance returned to the German Government
	In thousands of Reichsmarks			
1924-25	1,424,134 [1]	—	—	1,424,134 [1]
1925-26	1,854,533	—	—	1,854,533
1926-27	2,405,843	171,939	12,815	2,221,089
1927-28	2,890,710 [2]	529,800	67,497	2,293,413 [2]

[1] Not including 63,531,000 Reichsmarks collected by the Rhineland High Commission.
[2] Provisional figures.

It will be observed that despite the increase in the amount retained for the purpose of reparation, the sums remaining at the disposal of the German Government were somewhat higher in 1927-28 than in 1926-27. Since the reserve fund is an investment on which the German Government obtains interest, it would be fair to say that the real increase was somewhat higher than the apparent one.

(3) The estimated yield of the controlled revenues for the financial year 1928-29, which contains five months of the fourth

annuity year and seven months of the fifth annuity year, compared with the actual receipts for the financial year just concluded, is as follows:

	Estimates for 1928-29	Actual receipts of 1927-28
	In thousands of Reichsmarks	
Customs	1,200,000	1,250,984
Tobacco	780,000	793,947
Beer	370,000	360,230
Alcohol	270,000	261,025
Sugar	140,000	224,524
Total	2,760,000	2,890,710

The estimates thus provide for a drop in the receipts of 131 million marks. For six months last financial year had the advantage, which may be assessed at approximately 65 million marks, of receipts from the sugar tax at a rate twice as high as that now in force. The effective decrease budgeted for is therefore in a sense not greater than 66 million marks.

These estimates will probably prove to have been framed with much greater closeness than those of the years immediately preceding. For the first time since the inception of the Plan they would appear to err, if at all, on the side of optimism. A good harvest will adversely affect the customs yield and apart from this, as stated above, there is reason to suppose that last year's customs receipts have benefited at the expense of this year's, and that a corresponding decrease in the yield of the earlier months will ensue. On the other hand tobacco revenue will benefit, as explained below, to an amount which may be estimated at 35 million marks by legislation adopted since the estimates were framed, while the sugar tax, if the increase in consumption which has followed the reduction in the tax is maintained, might easily yield a surplus of 20 million marks. There is therefore a margin of some 55 million marks to set off against any disappointment which may be caused by the yield of customs.

III.

(1) Customs receipts in the period under review were 719 millions, as compared with 596 millions in the same months of the previous fiscal year. About 30% of this increase is due to the larger yield of duties on imported cereals. The first table on the opposite page shows the importance of the revenue obtained from duties on the chief cereals and on certain other commodities included under the regime of "Einfuhrscheine".

It has been explained above that what last harvest gained in quantity it largely lost in quality and that the increase in receipts may prove to some extent to be in anticipation of receipts which would normally be obtained from the importation of cereals in the months immediately preceding the new harvest, a presumption which is to some extent strengthened by the fact that existing stocks are considerably higher than at the corresponding date last year. At the same time two other causes have in some measure contributed to the increased imports : an increase in the number of livestock and a greater use of maize for industrial purposes.

	Duties assessed on the chief cereals, malt not roasted or ground, unpolished rice, peas and beans	"Einfuhrscheine" accepted in payment	Net receipts
	In thousands of Reichsmarks		
Monthly average from September 1926 to March 1927	18,247	2,670	15,577
September 1927	24,285	2,164	22,121
October 1927	26,377	2,546	23,831
November 1927	29,233	2,425	26,808
December 1927	24,805	3,777	21,028
January 1928	22,747	3,095	19,652
February 1928	19,403	3,691	15,712
March 1928	20,836	4,184	16,652

Increased receipts from cereal duties account only partly, however, for the present high level of customs revenue. Imports in general, as will be seen from the following table, have continued to increase:

Imports	Average Monthly Value In millions of Reichsmarks				
	Second half of 1926	First half of 1927	July - Sept. 1927	Oct. - Dec. 1927	Jan. - March 1928
1. Livestock	12.8	14.3	14.4	16.0	12.8
2. Foodstuffs and beverages	343.0	346.0	378.0	380.1	367.9
3. Raw materials and semimanufactured goods	471.9	580.5	587.1	634.9	666.7
4. Finished goods	131.3	182.1	225.0	233.0	231.4
Total	959.0	1 122.9	1 204.5	1 264.0	1 278.8

Once again the heaviest increase is shown under the heading of raw materials and semi-manufactured goods. Further, when it is remembered that certain articles classified under finished goods, such as yarns, are in reality the raw material for further manufacture, one is justified in concluding that most of the increased importation is due to the demands of manufacturing industry.

While raw materials and semi-manufactured goods account for rather more than half the value of imports, the revenue which they provide is not in the same proportion, for many of them are free of duty or subject only to low rates. An exception is constituted,

however, within this group by raw tobacco, mineral oils, and sawn timber, which have yielded the following amounts of revenue :

	Monthly Average of Customs Duties raised during the periods				
	Second half of 1926	First half of 1927	July–Sept. 1927	Oct.–Dec. 1927	Jan.–March 1928
	In millions of Reichsmarks				
Raw tobacco	5.4	6.1	7.0	6.1	7.3
Sawn timber ..... (position No. 76)	1.0	1.1	2.4	2.5	2.0
Mineral oils..... (position No. 239)	3.9	4.5	5.4	4.2	7.0
Total....	10.3	11.7	14.8	12.8	16.3

Among foodstuffs which have been fruitful of revenue may be mentioned coffee, the assessments on which amounted to 95 million marks from September 1927 to March 1928, as compared with 83 millions in the corresponding period last year. An increase of approximately 25 millions in the amount assessed on textiles is also noteworthy; it is probably attributable to the effect of recent trade treaties, as well as to increased spending power.

In the course of the last seven months four legislative changes have been made affecting customs. A law of December 21, 1927, modified the duties on motors and motor car parts. In the other three cases the object of the legislation was to increase the measure of protection accorded to agriculture. Since December 20, 1927, the date when the treaty of commerce with Yugo-Slavia came into force, maize intended for use as cattle food has been subjected to a conventional duty of 2.50 marks, which replaces the reduced duty of 3.20 marks under the law of July 15, 1927, for imports from all countries enjoying most-favoured-nation treatment. In order to bring the duty on dari in relation to that on maize, a law of December 13, 1927, reduced the duty on the former from 3.20 marks to 2.50 marks in the case of imports intended for cattle feeding. On the other hand, by the same law the duty on maize and dari imported for other purposes was raised from 3.20 to 5 marks as from March 1 last. The object of this measure, as explained in the memorandum accompanying the bill, was to meet the complaint put forward by German agriculture that the utilisation of potatoes for the manufacture of potato starch was suffering owing to the growing production of maize starch.

The two remaining legislative measures formed part of the programme for assisting agriculture which was approved by the Reichstag shortly before its dissolution. Of no special fiscal importance, they provide for a reduction in the amount of frozen meat allowed in free of duty, and for the extension of the system of " Einfuhrscheine " to the exportation of pigs, pork, and certain pork products.

Among commercial agreements recently concluded between Germany and other countries, mention may be made of the arrangement concluded on February 23 last with France, governing commerce

between the Saar Basin and Germany, and of the treaty of commerce concluded on March 24 last with Greece. In exchange for concessions made in favour of German imports into the territory of the Saar, Germany admits free of duty, or at much reduced rates, the products of the Saar in a much greater proportion than was the case under the previous agreements. Since the duties assessed on almost all imports from the Saar since January 10, 1925, were left outstanding in a suspense account and have now been discharged, the new arrangement will not in fact affect the yield of the customs duties. The reductions granted in the treaty concluded with Greece affect principally currants, woollen carpets, and certain articles of confectionery. It may be supposed that the reduction in the rates will be counterbalanced at least to some extent by increased importation.

In the last report mention was made of the fact that the Minister of Economic Affairs, in pursuance of the policy advocated at Geneva and Stockholm, had transmitted to the Economic Council of the Reich a comprehensive list of tariff positions for examination as to how far the rates on these could be reduced. According to recent information, the Council's Committee on Customs policy has forwarded to the Government its proposals respecting lowering of rates. Furthermore, the Council itself has recently approved a report in which the considerations and the conclusions formulated by the World Economic Conference are recognised as justified and as applicable to the case of Germany. The Council expresses the opinion that Germany is more interested in the lowering of foreign customs barriers than in the maintenance of its own high rates. It recommends the Government to proceed to reduce customs duties, both by treaty and by independent action, and as regards the latter method it urges that the proposals made by its Committee on Customs policy should be put into effect at an early date. The Council expresses the hope that all States which took part in the Economic Conference will take similar action, inasmuch as serious progress can be expected only from the combined action of a large number of countries.

(2) In the course of the last four financial years the taxes on tobacco have yielded the following sums:

	1924-25	1925-26	1926-27	1927-28 [1]
	In thousands of Reichsmarks			
Ad valorem tax on manufactured tobacco	513,077	595,171	535,051	664,258
Tax on leaf tobacco introduced into cigarette factories ("Materialsteuer")	—	3,536	103,729	128,478
Tax on cigarette tobacco and cigarettes in factories and warehouses on October 1, 1925 ("Nachsteuer")	—	17,414	73,520	1,112
Tax on tobacco substitutes	20	38	81	99
Total	513,097	616,159	712,381	793,947

[1] Provisional figures.

Broadly it may be said that the progress in receipts indicated by the above figures is a reflection of increased consumption, and in a much less degree of slightly increased taxes on cigarettes and cut tobacco which came into force on October 1, 1925. In considering the figures, however, as compared with previous reports, account must be taken of the fact that the receipts in 1925-26 and in 1926-27 were affected by exceptional circumstances. Receipts of 1927-28 on the other hand are of special interest in that they represent the results of a normal year during which the collection of the taxes was unaffected by any disturbing factor. It is true that the sum obtained from "Nachsteuer" represents the belated recovery of amounts due in 1925 or 1926 but even in a normal year some proportion of arrears is not abnormal and the sum in question is insignificant.

It will be seen from the figures on the opposite page, taken from the returns of banderoles sold, that the consumption of various tobacco products has continued to increase.

The number of cigarettes taxed in 1927 has not quite reached the total of 1925, but the figure for the latter year was, it will be remembered, abnormally swollen by the constitution of large stocks. On the other hand, examination of the total value as opposed to the number of cigarettes taxed discloses an appreciable increase from 1925 to 1927, due to the increase in the average price of cigarettes, an increase which was itself a consequence of the change in the basis of taxation which came into force on October 1, 1925.

In previous reports I briefly explained the situation in the cigarette industry, the measures adopted by the Ministry of Finance to restrict the expenditure of the factories, and the importance of the part played by the extended period granted to the manufacturer for the payment of tax. On December 7 last the German Government submitted to the Reichsrat a bill the objects of which were, firstly, to diminish from approximately between three and three and a half months to between one month and a half and two months the period allowed for the payment of the *ad valorem* tax of 30%, and, secondly, to authorise the Finance Minister to lay down certain conditions for the issue of banderoles to the factories during the period from February 1, 1928, to December 31, 1929. By this time the necessity for shortening the period allowed for payment was universally recognised and was explicitly admitted by the Finance Minister, who explained that the existing period left in the hands of the manufacturers large sums which constituted a loan without interest from the Reich, or a revolving credit which was utilised as additional capital, which from the fiscal standpoint was open to grave objection. The reduction proposed was to be effected progressively, the period of payment being shortened by two days each month. The Government expressed the view that their reform was only feasible if during the transition period, when an additional burden was imposed on the factories, protection was accorded to the manufacturers against certain exaggerated forms of competition. The protection contemplated took the form of a restriction upon the expenditure of the factories such as was introduced by the ministerial decision of May 18 last, which is explained in my last report, and the bill, had it been enacted, would in the first place have furnished the decision with a legal basis not open to challenge, and

Quarter (Calendar Year)	Quantities taxed						Retail value (including tax) of taxed tobacco In millions of Reichsmarks									
	Cigars		Cigarettes		Cut tobacco		Cigars		Cigarettes		Cut tobacco		Chewing tobacco and snuff		Total	
	millions				tons											
1925	5,995		31,412		32,133		814		1,200		186		56		2,256	
1926 1st quarter	1,100	5,681	6,056	28,338	8,321	37,647	141	749	276	1,278	48	218	14	58	479	2,303
2nd "	1,319		7,374		9,349		173		331		55		15		574	
3rd "	1,491		7,696		10,029		194		343		58		15		610	
4th "	1,771		7,212		9,948		241		328		57		14		640	
1927 1st quarter	1,397	6,387	6,874	31,032	9,250	38,785	182	862	314	1,442	55	231	14	58	565	2,593
2nd "	1,577		8,119		9,861		211		376		59		15		661	
3rd "	1,635		8,247		10,232		219		382		60		15		676	
4th "	1,778		7,792		9,442		250		370		57		14		691	

in the second place would have empowered the ministry to enforce it by an outright refusal to issue banderoles to factories which did not submit to its regulations; in other words, the Ministry would have been in a position to withhold the banderoles themselves and not merely credit for them. For the period of transition the bill sought to endow the Finance Minister with administrative powers which amounted to *carte blanche,* inasmuch as they were limited merely by the condition that the measures prescribed by him must be intended to prevent the total yield of the tax from being endangered. Under the bill the period for the payment of " Materialsteuer " was left unaltered at six months.

The Reichsrat before pronouncing on the bill awaited the opinion of the Economic Council of the Reich, to which body it had been submitted at the same time. The report of the Economic Council, dated February 17, and drafted after exhaustive examination of the bill and the hearing of numerous experts, affords ample confirmation of the views expressed in my last report. The Council arrived at the conclusion that it was necessary to shorten the period for the payment of the *ad valorem* tax of 30% by two months, to reduce from six to four months the period for the payment of " Materialsteuer ", and finally to demand on account and as security from all factories taking banderoles on credit a provisional payment each week equal to 35% of the amounts received from sales the week before. The clause respecting the powers of the Finance Minister was rejected as inconsistent with economic freedom, as likely to retard the recovery of an industry suffering from over-development, and finally, judging by experience of the decision of May 18, as difficult of execution.

Faced with the Government bill and the opinion of the Economic Council, the Reichsrat came to no decision until March 17, when it pronounced in favour of the bill. Instead, however, of according the Minister of Finance general powers of regulation it incorporated in the body of the bill the rules which the Minister intended to lay down. The rules would thus have obtained legislative power and would have been open to modification by the Minister, but only with the consent of the Reichsrat and of the Taxation Committee of the Reichstag. The rules in question were substantially those of May 18, 1927, somewhat modified and completed. Moreover, the Reichsrat introduced a new clause forbidding the retail sale of cigarettes during the period of transition at a price below that marked on the banderole. This provision, which was in force on paper at least between 1920 and 1923, was urgently demanded by an important section of the retail trade, which regarded it as a means of repressing a method of competition frequently employed, especially in Berlin, for the attraction of custom. The Government accepted all the modifications proposed by the Reichsrat with the exception of this last clause, which it considered as liable to constitute a dangerous precedent and as injurious to trade freedom.

The new bill did not come before the Reichstag until it was under the shadow of approaching dissolution and had insufficient time to examine so controversial and complicated a question. A section of the members drew attention to the fact that the Reichstag could at

least reduce the period allowed for the payment of tax, a measure for which, as remarked above, unanimity now appeared to exist. They therefore introduced a bill which, within a few days, was discussed and voted by the Reichstag and then by the Reichsrat, and became law on March 31, 1928. The new law reduces by one month and a half, in accordance with the Government proposal, the time allowed for the payment of the *ad valorem* tax, with the result that the delay, which was formerly from three to three and a half months, is henceforth not more than from one and a half months to two months. Provision is made for the transition period in a manner rather different from that originally proposed in the Government bill. The new system came into force at once on April 1 last, and to avoid the accumulation of payments which the reduction in the time allowed for payment would normally entail, settlement for the value of banderoles issued from February 1 to March 15 last is subject to a special regulation. The total price of such banderoles is constituted into a separate fiscal debt, the payment of which is postponed without interest and will be liquidated by payments of two and a half per cent on the 3rd and the 18th of each month (these being the normal dates for the payment of the *ad valorem* tax), the first payment falling due on April 18, 1928, and the last on December 3, 1929. A payment will be made for banderoles issued from March 16 to March 31 on May 18 and on the banderoles issued from April 1 to April 15 on June 3, and so on. The long period allowed for the payment of "Materialsteuer" remains unaffected at six months. The additional revenue to be obtained during the current financial year under this system can be estimated at 35 millions.

The new law makes no attempt to interfere with the internal workings of the industry and the Ministry of Finance, regarding them as morally condemned, has withdrawn the instructions issued to the collecting authorities on May 18, 1927. The factories are, therefore, again free to fix their own prices and to regulate their own expenditure on advertisements, and the period for payment allowed by law will only be withheld from a factory if its financial situation is considered suspect. It is therefore not improbable that competition will be intensified in the months to come, but in any case one of the principal changes in the situation consists in the disappearance of inequalities among factories which openly abandoned the advantage of deferred payments in order to retain their liberty of action, factories which found a means of retaining this advantage and circumventing the regulations to a smaller or greater extent, and factories which whole-heartedly respected the regulations laid down.

Arrears of the tax remain high, the official figures showing a sum outstanding of between 55 and 60 million marks. The reduction in the period of payment and the additional charge which the transition imposes on the factories may well bring about the further disappearance of undertakings, and this, while accelerating the process of putting the industry on a healthy basis, is liable to make a considerable portion of debts irrecoverable. Considering, however, the state of the industry and the amount of capital which the Finance Ministry has indirectly invested in it, no system proposed could

have been calculated to obviate such losses. Any other system could merely have concealed such losses as are inevitable by postponing the evil day.

(3) The beer tax produced for the period under review was 217,033,000 marks, as compared with 125,598,000 marks during the corresponding period of last year, an increase which was due to several reasons. In the first place, owing to alterations in the dates of collection, the latter sum includes only five and a half months of revenue. In the second place, it includes only one month of the higher rate of tax imposed under the law of August 10, 1925, and brought into force on January 1, 1927. In the third place, there has been an effective increase in consumption, as appears from the following table:

Financial Year April-March	Total Production		Imports		Exports		Consumption	
	In thousands of hectolitres							
1923-24	28,230		41		512		27,759	
1924-25	37,791		157		432		37,516	
1st quarter of 1925-26	12,976		53		129		12,900	
2nd » » 1925-26	14,159	47,414	54	187	102	452	14,111	47,149
3rd » » 1925-26	10,260		41		114		10,187	
4th » » 1925-26	10,019		39		107		9,951	
1st quarter of 1926-27	12,508		38		139		12,407	
2nd » » 1926-27	14,548	48,376	38	182	125	483	14,461	48,075
3rd » » 1926-27	11,266		53		106		11,213	
4th » » 1926-27	10,054		53		113		9,994	
1st quarter of 1927-28	13,523		41		137		13,427	
2nd » » 1927-28	15,316	51,608	59	193	144	553	15,231	51,248
3rd » » 1927-28	11,186		37		129		11,094	
	11,583		56		143		11,496	

Consumption during the financial year 1927-28 amounted to 51,248,000 hectolitres, as compared with 48,075,000 hectolitres during 1926-27. In spite of the fact that the wholesale price of beer was increased by as much as 12.5% as from January 1, 1927, the pessimistic forecasts which were made respecting the effects of the increase in the tax and in the sale price were therefore not justified by events.

In my last report I drew attention to the new power granted to the Communes to levy a tax on beer. In the interval a certain number of Communes, which formerly had imposed no communal tax on beverages, have taken advantage of their power to tax beer, and no increase in the sale price has resulted. In certain cases this action of the Communes has been disallowed by the Courts on the ground that the condition imposed by law, namely a corresponding reduction in other communal taxes, had not been fulfilled. A movement, the result of which it is not yet possible to forecast, has been set on foot by the association of cities (Städtetag) to promote the re-establishment of the communal taxes on beverages in general and an increase in the tax actually levied on beer.

The financial results of the breweries for the trade year which finished on September 30 last appear, according to such infor-

mation as has yet been published, to have been at least as favourable as those of the preceding year. Their success is generally attributed to the improvement in equipment consequent on concentration, which has made further strides during the year in question.

(4) As was mentioned in my last report, the sugar tax was reduced from 21 marks to 10.50 marks from August 1, 1927, the customs duty being raised at the same time from 10 to 15 marks per 100 kilos. The immediate result was a fall of 10 marks in the retail price of sugar, equivalent to a reduction of 13.5% in the retail price in Berlin. Buyers, awaiting the reduction in prices in August, naturally bought as little as possible in July, and consumption figures for August show an increase of as much as 58% over those for the same month in the previous year. Since that date the rate of increase has greatly diminished and if the figures for the exceptional month of August are omitted the consumption of sugar has increased by approximately 9.5% only compared with the same period of the previous year. This compares with an increase of 5.4% for the whole of the financial year 1926-27 over 1925-26. For the same period prices averaged some 13% less. If it is fair to assume that apart from any change in the rate of tax or in prices consumption would normally have increased by approximately 5%, it would appear that a reduction in the tax has stimulated consumption only to the extent of some 4%.

The reduction in the tax did not affect the receipts until October, with the result that half of the financial year 1927-28 benefited from the higher scale, except in so far as purchases were postponed in view of the approaching reduction. The tax produced 225 million marks during the financial year, or some 50 millions less than the original budget estimate, which was framed before the reduction in tax was enacted. This loss is to some extent offset by increased receipts due to the increase in the duty on potable spirits.

(5) In the course of the last four financial years the alcohol monopoly brought in the following sums:

1924-25	141	million	marks
1925-26	153	»	»
1926-27	227	»	»
1927-28	261	»	»

The excess in 1927-28 is due principally to the increase in the duty, amounting to about 18%, which came into force, as mentioned in the last report, on June 1, 1927. It should be added that the yield in each financial year includes the net trade profit of the alcohol monopoly's preceding business year, and that while in 1926-27 only 1,700,000 marks was received on this head, in 1927-28 as much as 7,400,000 marks was brought in. The trading profit of the year 1926-27 (October 1, 1926, to September 30, 1927) was in fact in excess of this figure but the monopoly has retained, as the law authorises it to do, a considerable part with a view to furnishing the working capital for which it has hitherto been dependent on the

Finance Ministry. The sales in the winter of 1926-27 having been sharply affected by the laying in of stocks both by industry and consumers in anticipation of an increase in the tax, it is not easy to judge how exactly consumption has moved, nor in consequence what has been the effect of the increase in the duty. In the six months from October 1927 to March 1928 the monopoly sold 352,000 hectolitres of potable spirits, as compared with 412,000 hectolitres in the same period a year earlier, but for the reason stated above it would not be justifiable to conclude that the figures disclose an undoubted drop in consumption. In any case, thanks to the increase in the duty, fiscal receipts apart from trading profit amounted within the period to 137 million marks as compared with 133 million marks obtained a year earlier from much larger sales.

The fixing of the ration of production at 100% instead of 65% stimulated a considerable increase last winter in the production of alcohol in spite of an indifferent potato harvest, and the quantities of alcohol delivered to the monopoly during the first six months of the trading year (1,768,000 hectolitres) have surpassed the deliveries of both the two preceding years (1,142,000 hectolitres and 1,529,000 hectolitres). Nevertheless, owing to the facts that sales of alcohol not subject to tax have increased considerably and that the monopoly's stocks were low at the beginning of the year, production has been regarded as insufficient, and at the end of March the ration for the present trade year was increased to 130% of the normal ration, while at the same time the prices payable to private distillers were slightly increased. On the other hand, in order to diminish the losses incurred on the sales of alcohol not subject to tax, the monopoly has increased from 30 to 40 marks the sale price of alcohol for industrial and domestic use. It should be observed, however, that even at a price of 40 marks this alcohol is sold far below the cost of production.

The bill for the reform of the monopoly was given a first reading in the Reichstag on December 12 last, but the Tax Committee, to which the bill was referred, was unable to give attention to it before the dissolution. On March 22 last the Finance Minister, speaking before the Budget Committee of the Reichstag, expressed the opinion that in the possible reorganisation of the alcohol monopoly lay a revenue reserve of more than 100 million marks. When account is taken of the principles, as explained in previous reports, which govern the administration of the monopoly, and of the relatively low rate at which potable spirits are taxed, it would be difficult to characterise the above figure as exaggerated.

IV.

Visits of inspection were paid to the following offices: Oberfinanzkassen Breslau, Dresden, Hannover, Karlsruhe, Kassel, Leipzig, München, Stettin, Stuttgart, Unterelbe in Hamburg, and Unterweser in Bremen; the head office of the alcohol monopoly administration; the Zollkassen of Altona-Ottensen, Berlin-Nord, Berlin-Süd, Breslau-Nord, Dresden-Altstadt, Hamburg-Theerhof and

München-Deroystrasse, all of which during the period belonged to the group of Kassen which remit their receipts of controlled revenues directly to my account; and a number of ordinary Zollkassen. It was everywhere found that the accounting, the blocking, and the transmission of the revenues were effected exactly as prescribed by the Control Protocol and the Agreement of September 2, 1926. In addition several distilleries and a cigarette factory were visited, in company with the competent German officials. In all cases the revenue control methods appeared to be fully effective.

Signed: ANDREW McFADYEAN.

The Commissioner of Controlled Revenues

Reserve Fund accumulated in Accordance with Chapter III of Annex I to the Agreement of August 9, 1924, between the Reparation Commission and the German Government.

Income and Expenditure Account for the first seven months of the Fourth Annuity Year (September 1, 1927, to March 31, 1928.)

Income	Reichsmarks	Expenditure	Reichsmarks
Amounts retained from the yield of the Controlled Revenues	58,311,799.99	Tax (Kapitalertragsteuer) on interest earned	183,757.77
Interest earned on Investments	2,020,911.10	Expenses of purchase of investments	57,562.50
		Charges for safe custody of investments	5,306.25
		Balance representing the addition to the accumulated Reserve Fund during the period September 1, 1927 to March 31, 1928, as per Balance Sheet	60,086,084.57
	60,332,711.09		60,332,711.09

Balance Sheet as at March 31, 1928.

Assets	Reichsmarks	Liabilities	Reichsmarks
Investments		**Reserve Fund** accumulated in accordance with Chapter III of Annex I to the Agreement of August 9, 1924 between the Reparation Commission and the German Government.	
Mortgage Bonds at cost, maturing 1929–31	57,500,000.00	As at August 31, 1927 ... R.M. 22,703,797.99	
Treasury Bills due May 10, 1928 Nominal Value R.M. 25,000,000.— cost	24,650,000.00	Addition during the period September 1, 1927 to March 31, 1928 as per Income and Expenditure Account „ 60,086,084.57	82,789,882.56
Cash at Bank	7,980.48	*Note:* the Gold Mark equivalent of the Reserve Fund at the fine gold rate of March 31, 1928 is G.M. 82,885,366.50	
Interest Accrued less interest received in advance	685,875.00	**Reichsbank** – for safe custody charges	3,718.75
		Tax (Kapitalertragsteuer) payable on Interest Accrued less tax on interest paid in advance	50,254.17
	82,843,855.48		82,843,855.48

Berlin, April 13, 1928.

REPORT

OF THE

TRUSTEE

FOR THE

GERMAN RAILWAY BONDS

June, 1928

BERLIN

Berlin, April 13, 1928.

Report of the Trustee for the German Railway Bonds.

The present report of the Trustee contains a brief survey of the working of the German Railway Company during the past three years, *i. e.* during the first three years of its existence. For the sake of clearness a distinction must be made between the annuities under the Experts' Plan and the business years of the Company.

The annuities under the Experts' Plan, which have been regularly paid by the Company to the Agent General for Reparation Payments for the account of the Trustee, are as follows:

		G.M
I.	From September 1, 1924, to August 31, 1925 ...	200 millions,
II.	» September 1, 1925, to August 31, 1926 ...	595 »
III.	» September 1, 1926, to August 31, 1927 ...	550 »
IV.	» September 1, 1927, to August 31, 1928, the annuity to be paid by the Company under the Plan amounts to	660 » .

The monthly payments of this annuity began to be effected on their due date, and have continued regularly.

The following figures show the manner in which the service of the annuities has been charged against the business years of the Company:

		G.M
I.	Business year 1925 (from October 1, 1924, to December 31, 1925)	400 millions,
II.	Business year 1926	575 »
III.	» » 1927	590 »
IV.	» » 1928 (payments effected and to be effected)	660 » .

Apart from these annual payments towards reparations, the three business years under consideration have supported the following charges:

Business year	Operating expenditure	Capital expenditure	Legal reserve	Special reserves	Preference dividend and service of new debts
	in millions of reichsmarks				
1925 (15 months)....	4,674	239[1]	113	150	3
1926	3,681	408	91	70[2]	41
1927	4,159	348[3]	101	120	64
	12,514	995	305	340	108

[1] Plus 176 millions included in the operating expenditure of this business year.
[2] Plus a reserve, for an order programme, of 70 millions absorbed in 1927.
[3] Plus 140 millions included in the operating expenditure of this business year.

To meet these charges the German Railway Company has had the following receipts at its disposal during the same period:

Business years	Operating receipts	Proceeds from the sale of preference shares	Loans and credits granted by third parties and by the Reich
	in millions of Reichsmarks		
1924-1925			
last 3 months of 1924	1,000	86	9
12 months of 1925	4,669		
1926	4,541	295	77
1927	5,039	—	59
	15,249	381	145

An examination of these figures shows that the operating receipts have increased. In 1927 they showed an increase of 11 per cent over 1926 and 8 per cent over the twelve months of the year 1925. During the early months of 1928 traffic has continued to develop favourably.

A comparison between the charges devolving upon the Company and the receipts at its disposal allows of the following conclusions:

The working coefficients for the three business years are:

85.56 per cent for the business year 1925,
81.06 » » » » » » 1926,
82.53 » » » » » » 1927.

The average coefficient for the three business years is 83.05 per cent.

The improvement in the working coefficient is satisfactory; the figure for the main lines varies at present between 75 and 90 per cent.

Taking the capital account, an examination of the receipts and expenditure shows that it has not been possible to finance the total capital expenditure out of receipts. The capital expenditure amounted to *RM* 995 millions and has only been covered to the extent of 526 millions, derived partly from the sale of preference shares (381 millions) and partly from loans or credits granted by third parties and by the Reich (145 millions). The balance, *i. e.* 469 millions, has been met out of the ordinary operating receipts.

This system of partially meeting capital expenditure by drawing upon operating receipts is in keeping with the practice followed by the Prusso-Hessian Railways before the war, and with that adopted by the American railway companies.

It is nevertheless true that if the Company had been able to meet the whole of its expenditure under this head out of its capital receipts—for example out of the proceeds from larger issues of preference shares—the reserves would have increased *pro tanto*.

In respect of the business year 1928, the programme of capital expenditure has been appreciably reduced. It will be possible to cover it out of the proceeds of an issue of preference shares in Germany in accordance with an agreement concluded at the beginning of February 1928 between the Company and a consortium of the leading German banks headed by the Reichsbank. Under the terms of this agreement the consortium undertook to issue immediately a tranche of 100 millions of preference shares, to be followed during the three subsequent months by a new tranche of 100 millions of preference shares, or 100 millions of 7 per cent bonds at three years to be exchanged for preference shares. The first tranche of 100 millions was offered to the public on February 8, 1928, and was rapidly taken up. The success of this issue decided the consortium to exercise its option on the second tranche of 100 millions of preference shares, and the latter was allotted to the subscribers to the first tranche who had not received satisfaction.

In respect of the year 1927 the accounts of the Company show an operating surplus of 880.5 millions, as against 860.2 millions in 1926. Adding in the sum carried forward from the previous year, the available balance in 1927 was 1,048.2 million reichsmarks, as against 1,013.4 millions in 1926.

On the total amounts thus available there were drawn in 1927 590.5 million reichsmarks for the service of the Reparation bonds. Of the balance of 457.7 millions a sum of 61.7 millions was devoted to the payment of the interest on the preference shares and 2.1 millions to the payment of the interest on various debts of the Company. 220.8 millions were devoted to amortisation and reserve fund purposes and 173.2 millions were carried forward. Thus of the whole available profits 37.5 per cent were devoted to amortisation and reserve fund purposes or carried forward.

The value of the operating rights, plant and equipment was shown in the balance sheet of December 31, 1927, as 25,866 millions, as against 25,585.6 millions at the end of 1926 and 25,131 millions on October 1, 1924.

The cash in hand, bank balances and short term investments on the other hand were reduced to 612.8 million reichsmarks on December 31, 1927, as against 704.2 millions on December 31, 1926. The total amount of amortisation effected and of reserves constituted since the establishment of the Company was 645 million reichsmarks.

The fourth annuity under the Experts' Plan, which has to be paid by the Company during the period September 1, 1927 to August 31, 1928, and is therefore distributed over the business years 1927 and 1928, amounts for the first time to the standard figure of 660 million gold marks, composed of 550 millions representing the year's interest at the rate of 5 per cent per annum and 110 millions representing amortisation at the rate of 1 per cent on the 11 milliards of Railway bonds.

The time appears to have come for the establishment of a definite and precise financial plan, making provision on the one hand for the payment by the Company out of recurrent income of the recent salary and wages increases totalling annually 450 million marks and the expenditure in respect of maintenance of permanent way and rolling stock, and, on the other hand, for the payment out of non-recurrent income (viz. a further issue of preference shares) of such capital expenditure as a prudent and healthy administration may judge expedient.

Such a programme would make it easier to see that such available or working funds as are considered necessary by the Board are always present. It would further permit the Management to defer signature of contracts for new constructional work or large purchases of material—even where such have been decided upon in principle by the Board—until the provision of the sums destined to cover such capital expenditure has been assured by an issue of preference shares within the limits allowed by the Law.

The Trustee has submitted to the Reparation Commission for approval a table, prepared with the assistance of M. A. Bégault, Chairman of the Permanent Committee of the International Congresses of Actuaries, making provision for amortisation of the 11 milliards of bonds within thirty-seven years, beginning with the year September 1, 1927—August 31, 1928. This table is attached to the present report in the form of an annex.

In his Report of December 10, 1927, the Agent General for Reparation Payments expressed the opinion that the financial relations between the German Railway Company and the Reichsbank, the Verkehrs-Kreditbank and other banking institutions would gain by reorganisation on a stricter basis. Since that date an agreement has been concluded (January 1928) between the Company and the Reichsbank with regard to the handling of railway funds.

It has been agreed that the funds of the German Railway Company, other than those required to meet current payments and those received by the Verkehrs-Kreditbank in connection with financing freights on credit, are to be paid into the account of the Verkehrs-Kreditbank with the Reichsbank. The giro system of the Reichsbank is to be used as far as possible as the means for transferring the funds.

The sums deposited with the Reichsbank are to be invested under joint agreement of the Reichsbank and the Verkehrs-Kreditbank.

Funds available for investment at short term will be used for the purchase of bills or will be placed on deposit at the Golddiskontbank, which is really a subsidiary department of the Reichsbank.

In spite however of the value of these reforms, the financial methods of the Company still appear susceptible of much improvement, and the question of such improvement is under consideration.

On May 31, 1927, the Trustee closed his report with the following words:

"In conclusion after two and a half years of prudent administration by the German Railway Company it is permissible to note with satisfaction the continued development of the system, representing as it does an essential factor for the regular working of the Experts' Plan.

A sustained effort for understanding and collaboration has alone made possible the attainment of these results. It is no exaggeration to say that, when the time comes for partial mobilisation of the reparation assets, the same spirit of understanding will promote the success of the issues of the bonds."

Today the Trustee can only repeat these words. The experience acquired and the record of events since that date justify the repetition of these anticipations pending their realisation in fact.

June 1928.

(Signed) LÉON DELACROIX.

Annex

TABLE SHOWING THE SERVICE (interest and amortisation) OF THE BONDS OF THE GERMAN RAILWAY COMPANY

(in gold marks)

Date	Amortisation	Total amortised	Total still to be amortised	Interest	Total service
September, 1 1928	110,000,000.—	110,000,000.—	10,890,000,000.—	550,000,000.—	660,000,000.—
1929	115,500,000.—	225,500,000.—	10,774,500,000.—	544,500,000.—	660,000,000.—
1930	121,275,000.—	346,775,000.—	10,653,225,000.—	538,725,000.—	660,000,000.—
1931	127,338,750.—	474,113,750.—	10,525,886,250.—	532,661,250.—	660,000,000.—
1932	133,705,687.50	607,819,437.50	10,392,180,562.50	526,294,312.50	660,000,000.—
1933	140,390,971.88	748,210,409.38	10,251,789,590.62	519,609,028.12	660,000,000.—
1934	147,410,520.47	895,620,929.85	10,104,379,070.15	512,589,479 53	660,000,000.—
1935	154,781,046.49	1,050,401,976.34	9,949,598,023.66	505,218,953.51	660,000,000.—
1936	162,520,098.82	1,212,922,075.16	9,787,077,924,84	497,479,901.18	660,000,000.—
1937	170,646,103,76	1,383,568,178.92	9,616,431,821.08	489,353,896.24	660,000,000.—
1938	179,178,408.95	1,562.746,587.87	9,437,253,412,13	480,821,591.05	660,000,000.—
1939	188,137,329,39	1,750,883,917.26	9,249,116,082.74	471,862,670.61	660,000,000.—
1940	197,544,195.86	1,948,428,113.12	9,051,571,886,88	462,455,804.14	660,000,000.—
1941	207,421,405.66	2,155,849,518.78	8,844,150,481.22	452,578,594 34	660,000,000.—
1942	217,792,475,94	2,373,641,994.72	8,626,358,005.28	442,207,524.06	660,000,000.—
1943	228,682,099.74	2,602,324,094.46	8,397,675,905.54	431,317,900.26	660,000,000.—

1944.....	240,116,204.72	2,842,440,299.18	8,157,559,700.82	419,883,795.28	660,000,000.—
1945.....	252,122,014.96	3,094,562,314.14	7,905,437,685.86	407,877,985.04	660,000,000.—
1946.....	264,728,115.71	3,359,290,429.85	7,640,709,570.15	395,271,884.29	660,000,000.—
1947.....	277,964,521.49	3,637,254,951.34	7,362,745,048.66	382,035,478.51	660,000,000.—
1948.....	291,862,747.57	3,929,117,698.91	7,070,882,301.09	368,137,252.43	660,000,000.—
1949.....	306,455,884.95	4,235,573,583.86	6,764,426,416.14	353,544,115.05	660,000,000.—
1950.....	321,778,679.19	4,557,352,263.05	6,442,647,736.95	338,221,320.81	660,000,000.—
1951.....	337,867,613.15	4,895,219,876.20	6,104,780,123.80	322,132,386.85	660,000,000.—
1952.....	354,760,993.81	5,249,980,870.01	5,750,019,129.99	305,239,006.19	660,000,000.—
1953.....	372,499,043.50	5,622,479,913.51	5,377,520,086.49	287,500,956.50	660,000,000.—
1954.....	391,123,995.68	6,013,603,909.19	4,986,396,090.81	268,876,004.32	660,000,000.—
1955.....	410,680,195.46	6,424,284,104.65	4,575,715,895.35	249,319,804.54	660,000,000.—
1956.....	431,214,205.23	6,855,498,309.88	4,144,501,690.12	228,785,794.77	660,000,000.—
1957.....	452,774,915.49	7,308,273,225.37	3,691,726,774.63	207,225,084.51	660,000,000.—
1958.....	475,413,661.27	7,783,686,886.64	3,216,313,113.36	184,586,338.73	660,000,000.—
1959.....	499,184,344.33	8,282,871,230.97	2,717,128,769.03	160,815,655.67	660,000,000.—
1960	524,143,561.55	8,807,014,792.52	2,192,985,207.48	135,856,438.45	660,000,000.—
1961.....	550,350,739.63	9,357,365,532.15	1,642,634,467.85	109,649,260.37	660,000,000.—
1962.....	577,868,276.61	9,935,233,808.76	1,064,766,191.24	82,131,723.39	660,000,000.—
1963.....	606,761,690.44	10,541,995,499.20	458,004,500.80	53,238,309.56	660,000,000.—
1964.....	458,004,500.80	11,000,000,000.—	—	22,900,225.04	480,904,725.84

REPORT

OF THE

TRUSTEE

FOR

GERMAN INDUSTRIAL DEBENTURES

May 15, 1928

BERLIN

Report of the Trustee for German Industrial Debentures.

(September 1, 1927 — February 29, 1928.)

The present Report covers the first half of the *fourth year of the application* of the Experts' Plan. Its object is to give an account of the measures adopted during this period with a view to ensuring the application of the *Industrial Charges Law* (Industriebelastungsgesetz) of August 30, 1924, and of the results obtained by the Bank für Deutsche Industrie-Obligationen as of December 31, 1927.

* * *

The decrees promulgated by the German Government since September 1, 1924, to the date of the present Report for the purpose of ensuring the application of the Industrial Charges Law are *twelve* in number. Nine have been examined in detail in the reports published on April 10, 1925, September 30, 1925, April 15, 1926, November 15, 1926, and May 15, 1927. The contents of the Tenth Decree and of the two which followed it are discussed below.

The *Tenth Decree* (Reichsgesetzblatt II, No. 41 of October 29, 1927, page 902) contains four paragraphs. The two first fix the methods for executing the provisions of § 49 paragraph 1 of the Industrial Charges Law dealing with the alienation by the concerns of the whole or part of the working capital (Betriebsvermögen).

§ 1 requires the Bank to judge whether the component parts of the Betriebsvermögen to be alienated may be considered as constituting a concern within the meaning of the provisions of the Industrial Charges Law. In such case and in conformity with § 49 paragraph 1 of the Law, there is no necessity to make an entry on the Land Register of the charge resting on the property alienated.

§ 2 provides that the distribution of the annual payments as effected by the Revenue Offices (Finanzämter) following the alienation of parts of the Betriebsvermögen is also valid for the corresponding distribution of the public law mortgage. The Bank must in conformity with the said distribution issue certificates for the amounts of the public law mortgage resting on the property making up the Betriebsvermögen of each part.

§ 3 regulates the alienation of property effected by a concern subject to the charge in favour of another concern also subject to the charge. In this connection the German Government has adopted an interpretation which excludes the possibility of several first public law mortgages accumulating on the same property; the object of this Article is to avoid serious difficulties in connection with sales or credit transactions in respect of property belonging

to concerns liable to the charge. To this end the Government of the Reich has decided that—upon the occasion of transactions between concerns subject to the charge and without prejudice to the cases covered by § 49 paragraph 1 of the Industrial Charges Law—the property alienated shall form part of the security given by the concern receiving the same when it shall have ceased to form part of the security given by the concern parting therewith.

By provisions §§ 2 and 3 of this Decree the German Government has given an administrative interpretation of the law which is not the only possible construction of its terms. The application of these provisions does not however at the present time in any way diminish the value of the original guarantee attaching to the debentures issued by the concerns; it has indeed this advantage, that it simplifies the administrative procedure of the Bank, which is under the obligation to issue the mortgage certificates.

§ 4 of the same Decree has no relation whatsoever to the previous provisions. It authorises the Government of the Reich, in agreement with the Bank and the Trustee, to fix by estimate the amount of the annual payments due under § 7 of the Industrial Charges Law from the new concerns or from concerns which may have increased their Betriebsvermögen, and in the latter case in proportion to such increase. An amount equivalent to this estimate and taken from the reserve fund opened with the Bank in conformity with § 10 of the Law for the Production of the Charge, is to be credited to the adjustment and guarantee fund mentioned in § 7 paragraph 3 of the Industrial Charges Law. During the period which elapsed between the date of the first distribution of the charge and December 31, 1927, the estimated annual payments due under the said § 7 amounted to 4,478,426 reichsmarks. This sum may *inter alia* be utilised in future, without resorting to the Government guarantee, to cover any deficit which might arise in the payments effected by the concerns, especially in cases of bankruptcy and liquidation where there is an insufficiency of assets.

§ 6 of the Industrial Charges Law provides for periodical redistributions of the charge for the purpose of making allowance for changes in the Betriebsvermögen of the concerns liable to the charge, as a result of economic changes in Germany.

A second destribution of the charge was to have been effected in 1926 according to the provisions of § 5 of the Eighth Decree (see report of November 15, 1926); but it was afterwards postponed for a year by § 1 of the Ninth Decree (see report of May 15, 1927). The final provisions in regard to this distribution were fixed by the *Eleventh Decree* of December 29, 1927 (Reichsgesetzblatt II No. 1 of January 6, 1928, page 1).

In virtue of the provisions of § 6 of the Industrial Charges Law and in view of the fact that the distribution was fixed for the calendar year 1927, it is to be effected by taking as a basis the estimates of the Betriebsvermögen made for the tax on real and personal property for the same year. These estimates were made

in accordance with the new provisions of the Assessment Law of the Reich (Reichsbewertungsgesetz) and, as it was a new step, it entailed a considerable amount of work for the revenue offices (Finanzämter). This explains why the work involved by the second distribution was not concluded in 1927 but occupied the opening months of 1928.

The Eleventh Decree refers to the provisions of the First Decree, dated October 28, 1924 (see report of April 10, 1925) and is based on the latter Decree while introducing small modifications and, in some cases, repeating the previous provisions for the purpose of greater clearness.

§§ 2 and 3 explain what is meant by "concerns subject to the industrial charge". The provisions scarcely differ from the previous provisions except insofar as private partnerships and commandite companies are concerned. The latter are henceforward to be treated as integral concerns: the charge had hitherto rested on each partner or associate separately in proportion to their quotas. This modification is due to the principles contained in the Reichsbewertungsgesetz and in the Law concerning the tax on real and personal property of 1925, and it may be considered a more rational solution from the standpoint of the Industrial Charges Law, the object of which was to charge the concerns in relation to their industrial activities rather than individually.

The basis of calculation is fixed in §§ 4 and 5 of the Decree. According to § 4 it is the value of the Betriebsvermögen obtained by applying the Reichsbewertungsgesetz and having served as the basis for assessing the tax on real and personal property for the calendar year 1927. In the case of new or subsequent assessments effected during 1927, the value thus obtained is taken as the basis. Banking, insurance and hotel-keeping businesses, restaurants and cafés and exclusively trading concerns—which are exempt from the charge under § 2 of the Industrial Charges Law—cease to enjoy this exemption when they have a subsidiary concern subject to the charge, and are therefore subject themselves on the basis of their total Betriebsvermögen.

§ 5, which is a repetition of § 6 of the First Decree of October 28, 1924, states that the new value of the Betriebsvermögen (even if not yet final) serves as a basis for calculating the distribution. No notice is taken of any modifications or rectifications unless the revenue offices (Finanzämter) have been informed thereof before the fixing of the industrial charge.

According to § 6, which reproduces § 9 of the First Decree, the value of the Betriebsvermögen of each concern is to be rounded off to the nearest thousand reichsmarks below the actual figure, instead of computing gold marks, the reichsmark being treated as equivalent to the gold mark; the debentures issued by the concerns are however in every case denominated in gold marks, in accordance with the Industrial Charges Law.

§ 7 of the Decree regulates the application of the provisions of § 11 of the Law. The revenue offices are to communicate to each

concern the amount of the charge encumbering the total Betriebsvermögen subject thereto. If the concern does not indicate its agreement to modification of its original debenture within the two following weeks, it must sign a new debenture to replace the old one before the end of the following week. Concerns newly subject to the charge and those which handed in a collective debenture at the time of the first distribution (§ 12 of the Industrial Charges Law)—that is to say Railway and shipping undertakings, must sign the individual debentures within three weeks.

The date of the conclusion of the procedure of distribution will be published in the Deutscher Reichsanzeiger. From this date, as fixed in § 8 of the Decree, the charge resting on the concerns subjected at the time of the first distribution is extinguished; the charge under the second distribution applies as from the same date both as regards the amount of the annuity due by the concerns encumbered, and the public law mortgage upon the real and other mortgageable property.

Where the debentures issued at the time of the first distribution are replaced by new debentures, they are to be destroyed by the Bank in the presence of a representative of the German Government and a representative of the Trustee.

The final provision of the Eleventh Decree (§ 9) fixes the calendar year 1929 as the year during which a third distribution is to be effected.

The second distribution of the charge is also the subject of the *Twelfth Decree* which was promulgated by the Government of the Reich on March 3, 1928 (Reichgesetzblatt II No. 8 of March 13, 1928, p. 47). This Decree fixes notably (§ 1) the rate of the distribution of the charge of 5 milliard gold marks over the Betriebsvermögen of the concerns encumbered at 19.6 % of the Betriebsvermögen, whereas at the time of the first distribution it was 17.1, and this figure was subsequently reduced to 15.732 under the provisions of the Fifth Decree.

The increase of the percentage indicates a reduction in the value of the Betriebsvermögen of the encumbered concerns as compared with the 1924 assessment taken as a basis for the first distribution. This may be explained in part by the more accurate assessment of the Betriebsvermögen of the Industrial concerns, as the 1924 values were obtained during a very troubled period, and in part by the movement towards concentration and rationalisation which has developed since 1924 and resulted in the elimination of a number of undertakings operating at a loss.

In virtue of the Twelfth Decree those concerns whose chief business consists in the opening up of land sites for dwelling purposes and agriculture settlement are exempt from the charge. In conformity with § 2 paragraph 2 of the Law the Trustee previously consented to such exemption.

Finally, in § 3 the Decree fixes the exemption limit for the Betriebsvermögen at 50.000 reichsmarks instead of gold marks (§ 4 of the Law), the reichsmark being treated as equivalent to the

gold mark, but it is added that the charge—that is to say the amount of the debenture—shall continue to be expressed in gold marks.

* *
*

The object and the contents of the *Law for the production of the industrial charge* (Aufbringungsgesetz) have already been discussed on several occasions, and more especially in the report of April 15, 1926. The Decrees issued by the German Government down to the date of the present report for the purpose of ensuring the application of this Law are *eight* in number. The first three decrees, which were summarised in the report of April 15, 1926, treat of the method of collecting the sums which fell due for the first time in 1926, as no payment had to be made during the first year of application of the Experts' Plan (1924-25). The report dated May 15, 1927, contains a summary of the Fourth Decree of December 21, 1926, which fixed the procedure to be followed for the collection of the sums corresponding to the annuities due during the third year of application of the Experts' Plan (1926-27). This Decree was followed by a *Fifth Decree*, dated May 19, 1927, (Reichsgesetzblatt II No. 24) of May 27, 1927, p. 385), which postponed the payment of the sums corresponding to the second half-yearly instalment due for the same year from June 1 to July 15, 1927.

During the period covered by the present report three further Decrees have been issued by the Government of the Reich for the application of the Aufbringungsgesetz.

The *Sixth Decree* of September 30, 1927, for the application of the Aufbringungsgesetz (Reichsgesetzblatt II No. 40 of October 14, 1927 p. 885) contains the provisions relating to the declaration of the value of the Betriebsvermögen of the profit-earning concerns of the Reich, the Federal States and communes, which is to be adopted where an estimate has not yet been made in the normal course. The Decree subjects these concerns to the provisions of the Reichsbewertungsgesetz, and states that a declaration of property must be submitted separately in respect of each concern and that the revenue office (Finanzamt) competent to receive the statement in question is the revenue office in the district of which the head office of the concern is situated.

The *Seventh Decree* of November 19, 1927, for the application of the Aufbringungsgesetz (Reichsgesetzblatt II No. 57 of December 30, 1927, p. 1181) regulates the final payments by the concerns for the years 1926 and 1927, as also the payments for the year 1928 (§ 1). As stated in previous reports, the payments effected in 1926 and 1927 by the concerns in respect of the annuity were in the nature of provisional payments pending the fixation of the final amounts which was delaved because of the considerable work entailed for the revenue offices by the application of the new Reichsbewertungsgesetz.

In virtue of §§ 2, 3 and 4 of the said Decree, the values of the Betriebsvermögen as determined on January 1, 1925 and January 1, 1927, covering the years 1926, 1927 and 1928 respectively, are to be taken when establishing the list of taxpayers liable under the Aufbringungsgesetz and the amount which each taxpayer owes annually under the Law. These paragraphs contain the procedure to be followed in cases of subsequent assessment or new assessment to be effected during a year. They decree that in cases of liquidation or voluntary closing down of a concern, such a concern is liable for the payment of the annuity until the end of the year following the date of liquidation or closing down in question.

Under § 5 the amount due for 1928 is to be paid in two equal instalments on March 5 and June 15, 1928. Any differences necessary to adjust the provisional payments effected for 1926 and 1927 are also payable on the same dates. Where these payments have exceeded the sums really due they are in the first instance credited against the 1928 annuity. Where the differences cannot be so treated, repayment is effected upon request; this repayment takes place automatically where the difference exceeds 5 reichsmarks.

§ 6 provides for the payment of moratory interest following the same procedure as in the case of the tax on real and personal property.

Where the basis of assessment has been altered (§ 7), the notice to produce the charge under the Aufbringungsgesetz is to be altered automatically. According to § 8, all notices are subject to appeal under § 9 of the Aufbringungsgesetz and the provisions relating to such appeal are similar to those contained in the Fourth Decree for the application of the Aufbringungsgesetz.

The final provision (§ 9) reduces to 50 per cent the amount of the annuities to be paid by the concerns engaged in maritime, river and aerial navigation.

The *Eighth Decree* of January 19, 1928, for the application of the Aufbringungsgesetz (Reichsgesetzblatt II No. 3 of January 27, 1928 p. 9) fixes the final percentages to be applied to the Betriebsvermögen in order to arrive at the amount due by the concerns liable to the charge in the years 1926, 1927 and 1928.

This Decree provides for the fixing of the percentage of the Betriebsvermögen subject to the charge at 12.72 in 1926, 12.90 in 1927 and 12.90 in 1928 instead of 13.64—the rate provisionally fixed for the first two years by the Third and Fourth Decrees.

Consequently the coefficients to be applied to the Betriebsvermögen in order to obtain the amount of the final annuities are:

3.5 per mille for 1926 (2.5 per cent of 12.72 per cent, plus 10 per cent in respect of guarantee fund = 3.5 per mille);

7.1 per mille for 1927 (5 per cent of 12.90 per cent, plus 10 per cent in respect of guarantee fund = 7.1 per mille);

8.5 per mille for 1928 (6 per cent of 12.90 per cent, plus 10 per cent in respect of guarantee fund = 8.5 per mille).

(See reports of April 15, 1926, and May 15, 1927.)

The provisional rates for 1926 and 1927 were fixed at 3.75 and 7.5 per mille. The final rates reveal a slight reduction of the charge as compared with the estimates in 1926.

It is on the basis of the decrees summarised above that the first half of the annuity, i. e. 150 million gold marks, due on April 1, 1928, and representing interest and sinking fund on the 5 milliard gold marks of industrial debentures, has been collected during the current year.

* * *

The *third* business year of the Bank für Deutsche Industrie-Obligationen closed on December 31, 1927. The balance sheet and profit and loss account to that date as approved by the general meeting of shareholders on April 28, 1928, give the following figures:

BALANCE SHEET

Assets:		*Reichsmarks*
Share capital not yet paid up		2,500,000.—
Cash in hand and postal cheque credit balance		12,853.93
Credit balance at the Reichsbank and with other banks		63,221,490.21
Securities	8,772,400.10	
Written off	200,683.—	8,571,717.10
Loans and advances		1,025,676.35
Inventory	35,453.22	
Written off	35,452.22	1.—
Charge production payments account (Aufbringung)		27,810,614.24
Capitalised amount of the claims (Ansprüche) of the Bank under the Industrial Charges Law		5,000,000,000.—
Claim of the Bank in respect of the industrial charge annuity for the period September 1 to December 31, 1927		100,000,000.—
		5,203,142,352.83

Liabilities:	*Reichsmarks*
Share capital	10,000,000.—
Reserve fund	250,000.—
Reserve for special costs of the Bank under § 28 of the Industrial Charges Law	500,000.—
Deposits	271,931.62
Employees' Relief Account	92,195.—
Adjustment and Guarantee Fund Account	37,500,000.—
Carry forward account for the adjustment of charge production payments (Aufbringung)	26,231,986.97
Charge production adjustments account	27,810,614.24
Capitalised amount of the claims (Ansprüche) of the Trustee under the Industrial Charges Law	5,000,000,000.—
Claim of the Trustee in respect of the industrial charge annuity for the period September 1 to December 31, 1927	100,000,000.—
Surplus	485,625.—
	5,203,142,352.83

Profit and loss account.

Debit:		*Reichsmarks*
Expenses of Management		1,184,718.79
Written off from inventory		35,452.22
Written off from securities		200,683.—
Surplus:		
1927	172,835.24	
Brought forward from previous year	312,789.76	485,625.—
		1,906,479.01
Credit:		
Brought forward from the previous year		312,789.76
Receipts from interest	4,905,153.14	
Appropriated to:		
carry forward account for the adjustment of charge production payments	3,718,187.24	1,186,965.90
Trustee's share in the cost of Management		406,723.35
		1,906,479.01

Under the liabilities of the balance sheet will be noted the carry forward account for the adjustment of charge production payments entered for 26,231,986.97 reichsmarks. This figure includes an amount of 22,513,799.73 reichsmarks representing the surplus of the production payments made to the Bank during 1927 as compared with the amount required by it for the payment of the 5 per cent interest on the industrial bonds and debentures issued. The same figure also includes the sum of 3,718,187.24 reichsmarks which represents the difference between the total interest produced on the investment of the available funds of the Bank, i. e. 4,905,153.14 reichsmarks and that part of the amount expended by the Bank to meet its costs of management, i. e. 1,186,965.90 reichsmarks. The surplus of production payments is explained by the fact that the payments made to the Bank by the concerns liable to the charge were effected in 1926 and 1927 on the basis of a percentage derived from a provisional assessment, which was slightly higher than the final percentage fixed to-day. Under the provisions of § 5 of the Seventh Decree for the application of the Aufbringungsgesetz to which reference has already been made, the sums thus paid in excess by the concerns liable to the charge are reimbursed to them or credited against the annuity due in 1928.

Finally the exchange gains and losses resulting from the fact that the payments to the Trustee are effected in gold marks by the Bank although it receives the sums from the concerns in reichsmarks, are also transferred to the said carry forward account for the adjustment of charge production payments.

As provided by the Industrial Charges Law, the Trustee participates to the amount of one-third in the cost of management of the Bank: during 1927 he paid a sum of 406,723.35 in this respect which figures on the credit side of the profit and loss account.

The net profit realised during the business year ending December 31, 1927, has been fixed at 172,835.24 reichsmarks. By adding

the amount brought forward from the preceding year, i. e. 312,789.76 reichsmarks, the net profit amounts to 485,625 reichsmarks. This has enabled the distribution of the dividend of 6 per cent prescribed in the Statutes of the Bank for the entire business year in respect of the amount of share capital paid since the formation of the Bank, i. e. 5 million reichsmarks, and of the same dividend for five months in respect of the second instalment on the capital paid during the last business year, i.e. 2,500,000 reichsmarks

* * *

In conformity with the Statutes of the Bank, the mandate of four members of the Managing Board not yet drawn by lot at previous drawings, viz. Messrs. Frérichs, Dudley Ward, Dubois and McGarrah, ended on December 31, 1927. The members were eligible for re-election and were re-elected in accordance with the procedure fixed by the Industrial Charges Law—Messrs. Frérichs and Dudley Ward by the Reparation Commission and Messrs. Dubois and McGarrah by the non-German members of the General Council of the Reichsbank.

At its meeting of February 28, 1928, the Managing Board proceeded to appoint its Chairman in conformity with § 8 of the Statutes of the Bank. Dr. Krupp von Bohlen und Halbach was re-elected.

* * *

The first half-yearly instalment of the fourth reparation year included for the first time a payment of 1 per cent in respect of sinking fund in addition to the interest at the rate of 5 per cent on the 5 milliards of debentures issued in virtue of the Industrial Charges Law. This half-yearly instalment, which thus amounted to 150,000,000 gold marks fell due on April 1, 1928; it was duly paid by the Bank. The second half-yearly instalment for an equal amount of 150,000,000 gold marks due in respect of the year September 1, 1927, to August 31, 1928, falls due on August 25 next.

* * *

The Trustee still has available the total amount of 5 milliard gold marks of securities handed to him, since no sales of individual negotiable debentures or industrial bonds have been effected during the period covered by the present report, nor has there been any re-purchase of debentures on the part of the concerns liable to the charge during that time. The securities in the possession of the Trustee are composed as before of 4,346,500,000 gold marks of industrial bonds and 653,500,000 gold marks of individual negotiable debentures.

Berlin, May 15, 1928.

(signed) B. NOGARA.

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